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FACTORS AFFECTING THE ADVERTISING REVENUES OF THE BROADCASTING SYSTEM IN QUEBEC

Presented by: Stratégem
Coopers & Lybrand

January 30, 1986

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1. INTRODUCTION

A Mandate and objectives

A. The present report provides a better understanding of the advertising market and the major forces affecting advertising revenues of the broadcasting system in Quebec.

B Methodology

This present study was made available combining three sources:

- Analysis of existing statistics in the industry.

- Three (3) series of interviews among broadcasters media representation houses and advertising agencies/media buying organizations.

- Our practical knowledge of the industry.

C. Content of the report.

A. The report will cover three different aspects of the Québec Broadcasting industry. The first one will overview the Québec advertising industry, in a quantitative and qualitative point of view.

The second one will elaborate on the factors affecting advertising revenues.

- Finally, from the interviews, some keypoints will be discussed and will summarize what the respondants think about the present situation and the future of the broadcasting industry.

II THE ADVERTISING MARKET IN QUEBEC

A. ~~THE~~ QUANTITATIVE ASPECTS

This part of the study will outline the evolution of the Quebec advertising market and its relationship in Canada in a quantitative point of view.

Following are the different aspects of the numbers studied that will be considered:

- advertising expenditures by media
- broadcasting advertising expenditures
- television vs radio
- expenditures per capita
- comparison with the rest of Canada and the United States
- distinction: local vs national

A. 1. ADVERTISING EXPENDITURES BY MEDIA

A first look at the expenditures for all media in Canada shows a constant growth over the last10 years. (Table 1)

An average of 12,7 % annual increase over the 1974-1984 period has been found. However, if we consider the effect of the consumer price index which averages 8,8% over the same period, the net annual increase,in real terms, is 3,9%..

Therefore, the advertising market has not experienced a large annual increase over the last decade. The 1981-1983 period shows the lowest increase, which could be attributed to the general economic situation.

Table 2 gives us the split of the advertising expenditure by media in term of share.

TABLE 1

COMPONENTS OF NET ADVERTISING REVENUES BY MEDIA IN CANADA (000$)

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
BROADCAST											
RADIO TOTAL	182854	207679	241800	268741	303000	352010	391985	438519	466435	479946	530000
NATIONAL	54005	59426	68402	72867	83000	95529	104824	115407	119156	127516	140000
LOCAL	128849	148253	173398	195874	220000	256481	287161	323112	347279	352430	390000
TELEVISION TOTAL	225190	265631	322598	375903	430000	526828	610334	691737	777317	863767	995000
NATIONAL	168701	196169	237848	278818	319000	395329	458925	522648	597807	678460	795000
LOCAL	56489	69462	84750	97085	111000	131499	151409	169089	179510	185307	200000
NEWSPAPER	602621	682772	793212	870500	958000	1029282	1223273	1419944	1438380	1557000	1728000
PERIODICAL	193456	222146	245172	290700	355100	454130	554340	650032	674102	723000	809000
OUTDOOR	132509	137635	153000	168000	186000	211000	241400	280000	290000	310000	335000
OTHER	368439	386604	435702	475800	522000	645916	742104	851621	976209	1076814	1203000
TOTAL	1705069	1902467	2191484	2449644	2754100	3219166	3763436	4331853	4622443	5010527	5600000
% increase	-	11.6	15.2	11.8	12.4	16.9	16.9	15.1	6.7	8.4	11.8
% price index	-	10.8	7.5	7.9	8.8	9.2	10.2	12.5	10.8	5.8	4.4
% net increase	-	0.8	7.7	3.9	3.6	7.7	6.7	2.6	-4.1	2.6	7.4

Source: Statistics Canada
Maclean Hunter Research Bureau

TABLE 2

COMPONENTS OF NET ADVERTISING REVENUES BY MEDIA IN CANADA (%)

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
BROADCAST											
RADIO TOTAL	0.11	0.11	0.11	0.11	0.11	0.11	0.10	0.10	0.10	0.10	0.09
NATIONAL	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03
LOCAL	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.07	0.08	0.07	0.07
TELEVISION TOTAL	0.13	0.14	0.15	0.15	0.16	0.16	0.16	0.16	0.17	0.17	0.18
NATIONAL	0.10	0.10	0.11	0.11	0.12	0.12	0.12	0.12	0.13	0.14	0.14
LOCAL	0.03	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
NEWSPAPER	0.35	0.36	0.36	0.36	0.35	0.32	0.33	0.33	0.31	0.31	0.31
PERIODICAL	0.11	0.12	0.11	0.12	0.13	0.14	0.15	0.15	0.15	0.14	0.14
OUTDOOR	0.08	0.07	0.07	0.07	0.07	0.07	0.06	0.06	0.06	0.06	0.06
OTHER	0.22	0.20	0.20	0.19	0.19	0.20	0.20	0.20	0.21	0.21	0.21
TOTAL	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

TABLE 3

COMPONENTS OF NET ADVERTISING REVENUES BY MEDIA IN UNITED STATES (000000 US$)

	1975	1976	1977	1978	1979	1980	1981	1982	1983
BROADCAST									
RADIO TOTAL	1980	2286	2639	3052	3310	3702	4230	4670	5210
NATIONAL	519	595	680	767	826	962	1109	1178	1334
LOCAL	1461	1691	1959	2285	2484	2740	3129	3492	3876
TELEVISION TOTAL	5263	6282	7498	8955	10154	11366	12650	14329	16136
NATIONAL	3929	4668	5545	6582	7472	8399	9305	10570	11813
LOCAL	1334	1614	1953	2373	2682	2967	3345	3759	4323
NEWSPAPER	8234	9386	10700	12214	13863	14794	16528	17694	20582
PERIODICAL	1465	1773	2145	2597	2932	3149	3533	3710	4233
OUTDOOR	335	372	413	466	540	578	650	721	794
OTHER	10549	12110	13903	15942	17861	20191	22693	25308	28732
TOTAL	27826	32209	37298	43226	48660	53780	60284	66432	75687
% increase	-	15.8	15.8	15.9	12.6	10.5	12.1	10.2	13.9

Source: McCann-Erickson, Inc., New york

TABLE 4

COMPONENTS OF NET ADVERTISING REVENUES BY MEDIA IN UNITED STATES (%)

	1975	1976	1977	1978	1979	1980	1981	1982	1983
BROADCAST									
RADIO TOTAL	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07
NATIONAL	0.02	0.03	0.02	0.02	0.02	0.02	0.02	0.02	0.02
LOCAL	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
TELEVISION TOTAL	0.19	0.20	0.20	0.21	0.21	0.21	0.21	0.22	0.21
NATIONAL	0.14	0.14	0.15	0.15	0.15	0.16	0.15	0.16	0.16
LOCAL	0.05	0.05	0.05	0.05	0.06	0.06	0.06	0.06	0.06
NEWSPAPER	0.30	0.29	0.29	0.28	0.28	0.28	0.27	0.27	0.27
PERIODICAL	0.05	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06
OUTDOOR	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
OTHER	0.38	0.38	0.37	0.37	0.37	0.38	0.38	0.38	0.38
TOTAL	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

2.2 QUEBEC PERSPECTIVE

The Quebec broadcasting industry has a different evolution over the years, compared with the rest of Canada considering television and radio as two different entities.

2.2.1 The television industry

As reflected in table 7, the advertising expenditure per capita in television reached in 1984, 27.99 $ in Quebec against 33.22 $ for the rest of Canada.

A comparison with the United States leads us to these 1983 numbers:

Quebec:	25.34 Can $ per capita
Rest of Canada:	30.08 Can $ per capita
United States:	68.96 US $ per capita

The television industry is the big winner in the reallocation of the advertising money. From 13% in 1984, the TV share has increased to 18%. The magazines have also increased their share from 11% to 14%.

The losers are the newspaper and the radio industries; their share went from 35% and 11% to 31% and 9% respectively. The outdoor advertising has also experienced a decline (8% to 6%).

A look across the border (table 3 and 4) leads us to the same trends. However, the United States experienced a bigger advertising expenditure increase: 14,5% annually from 1975 to 1983.

The split between the media is different but the increasing share of the television is evident. The loser here is the newspaper industry, the other medias maintaining their share.

The advertising in television is increasing in Canada as well as the United States, detrimental to the other medias.

In Japan the television has an even larger share as reflected in the numbers of 1983 advertising expenditures:

TABLE 5

ADVERTISING EXPENDITURES PER MEDIA

	Japan* (%)	United States (%)	Canada (%)
RADIO	5,1	6,9	10,3
TELEVISION	34,6	21,3	17,4%
NEWSPAPER	30,1	26,6	31,0
OUTDOOR	N/A	1,1	6,2
OTHERS	30,2	45,2	35,1

*SOURCE: Le Devoir Economique, november 1985

The global advertising market in Quebec cannot be compared to the Canada or the United States as no format statistics are held specifically for the whole market.

However, a part of it, the broadcasting industry, is well documented and the statistics will allow us to carry on our analysis in a more specific perspective.

2. BROADCASTING ADVERTISING REVENUES

2.1 CANADIAN PERSPECTIVE

One of the characteristics that distinguish the Canadian broadcasting system is the presence of a national and public broadcaster which is CBC.

The following table gives us the evolution of the private and public broadcasting revenues in Canada (television and radio):

	Private Stations (000$)	Var.%	Public - CBC (000$)	Var.%	Total (000$)	Var.%	Pub/Total %
1974	359284	---	48760	---	40844	---	11,9
1975	420402	17,0	52848	8,4	473310	16,0	11,2
1976	505678	20,3	58720	11,1	564398	19,2	10,4
1977	579041	14,5	65603	11,7	644644	14,2	10,2
1978	673283	16,3	73947	12,7	747230	15,9	9,9
1979	791690	17,6	87148	17,9	878838	17,6	9,9
1980	901416	13,9	100903	15,8	1002319	14,1	10,1
1981	1027938	14,0	102318	1,4	1130256	12,8	9,1
1982	1136763	10,6	106989	4,6	1243752	10,0	8,6
1983	1220095	7,3	123675	15,6	1343770	8,0	9,2
1984	1360931	11,5	154096	24,6	1515027	12,7	10,2

SOURCE: Statistics Canada 56-204, 1974 to 1984

The total broadcasting revenue for all in 1984 is 1,515,027,000$. The share of CBC is constant: an average of 10,1% of the total revenues over the years. We can see that CBC's importance is not modified in the broadcasting industry, in terms of advertising revenues.

However, we can notice that the growth rate of the private stations' revenues is decreasing slightly during the years when the CBC one is increasing.

These statistics should be looked at with caution: they include both radio and television revenues, which have two different growth trends. Also CBC does not permit advertising on its radio stations. More detailed statistics can be found at appendix 1A and 1B.

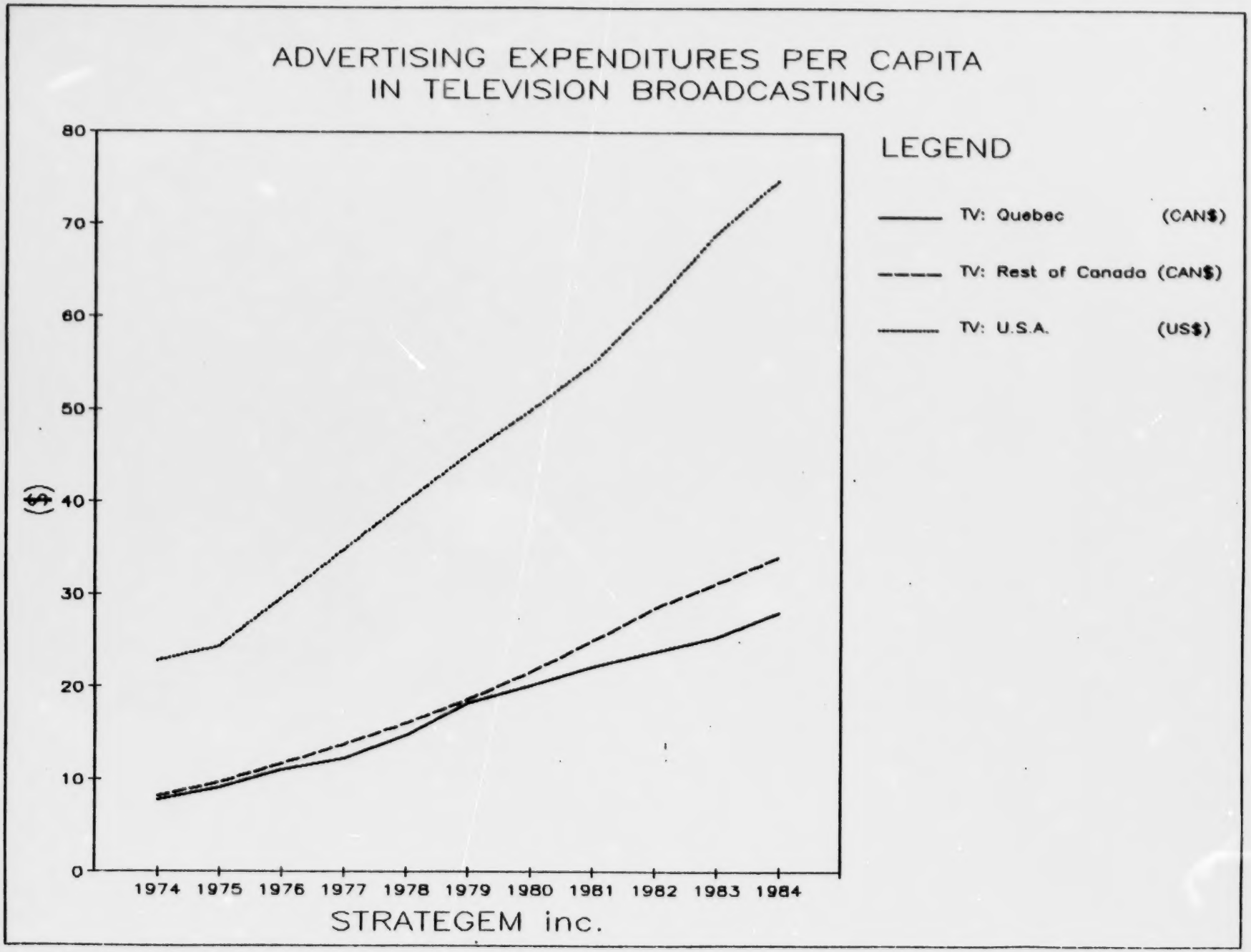
TABLE 7A

ADVERTISING EXPENDITURES PER CAPITA IN TELEVISION BROADCASTING
COMPARISON BETWEEN QUEBEC, CANADA WITHOUT QUEBEC, AND U.S.A. (CAN$ and US$)

	TELEVISION			INDEX 1974=100 TELEVISION		
	QUEBEC	CAN-QUE	U.S.A.	QUEBEC	CAN-QUE	U.S.A.
1974	7.75	8.13	22.78	100.00	100.00	100.00
1975	9.04	9.62	24.37	116.73	118.34	106.98
1976	11.00	11.67	N/A	142.01	143.56	N/A
1977	12.25	13.73	N/A	158.12	168.91	N/A
1978	14.75	16.00	40.16	190.47	196.83	176.31
1979	18.16	18.67	45.13	234.48	229.67	198.14
1980	20.18	21.58	49.85	260.47	265.47	218.88
1981	22.17	24.97	55.00	286.22	307.17	241.49
1982	23.72	28.49	61.76	306.19	350.47	271.18
1983	25.34	31.22	68.96	327.11	384.06	302.77
1984	27.99	34.09	N/A	361.34	419.36	N/A

Source: Statistics Canada, Catalog 56-204, 1974 to 1984
McCann Erickson Inc., New york
U.S. Bureau of the Census, Current Population Report, series P-25
Compilation Strategem

TABLE 7B


ADVERTISING EXPENDITURES PER CAPITA
IN TELEVISION BROADCASTING
80
70
60
50
40
30
20
10
0
1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984
LEGEND
TV: Quebec (CAN$)
TV: Rest of Canada (CAN$)
TV: U.S.A. (US$)
STRATEGEM inc.

The per capita advertising expenditures in television in the United States are more than twice what is spent in Quebec and Canada.

The expenditures in Quebec are not growing at the same rate as the one in the rest of Canada:

TABLE 8

Growth rate (%) of advertising expenditures in TV

	Quebec		Rest of Canada		United States	
1974-75	16,6		21,9		7,0	
1975-76	21,7		18,7		---	
1976-77	11,4	18,6	16,8	18,0	---	
1977-78	20,4		15,7		---	
1978-79	23,1		16,7		12,4	
1979-80	11,1		15,0		10,5	
1980-81	9,9	9,1	15,7	12,4	10,3	11,2
1981-82	7,0		12,6		12,3	
1982-83	6,8		8,2		11,7	
1983-84	10,5		10,4		---	

From 1974 to 1979, the 5 year growth rate is similar at 18,6 and 18,0%.

But from 1979 to 1984, the rest of Canada is growing at a 12,4% rate against 9,1% in Quebec.

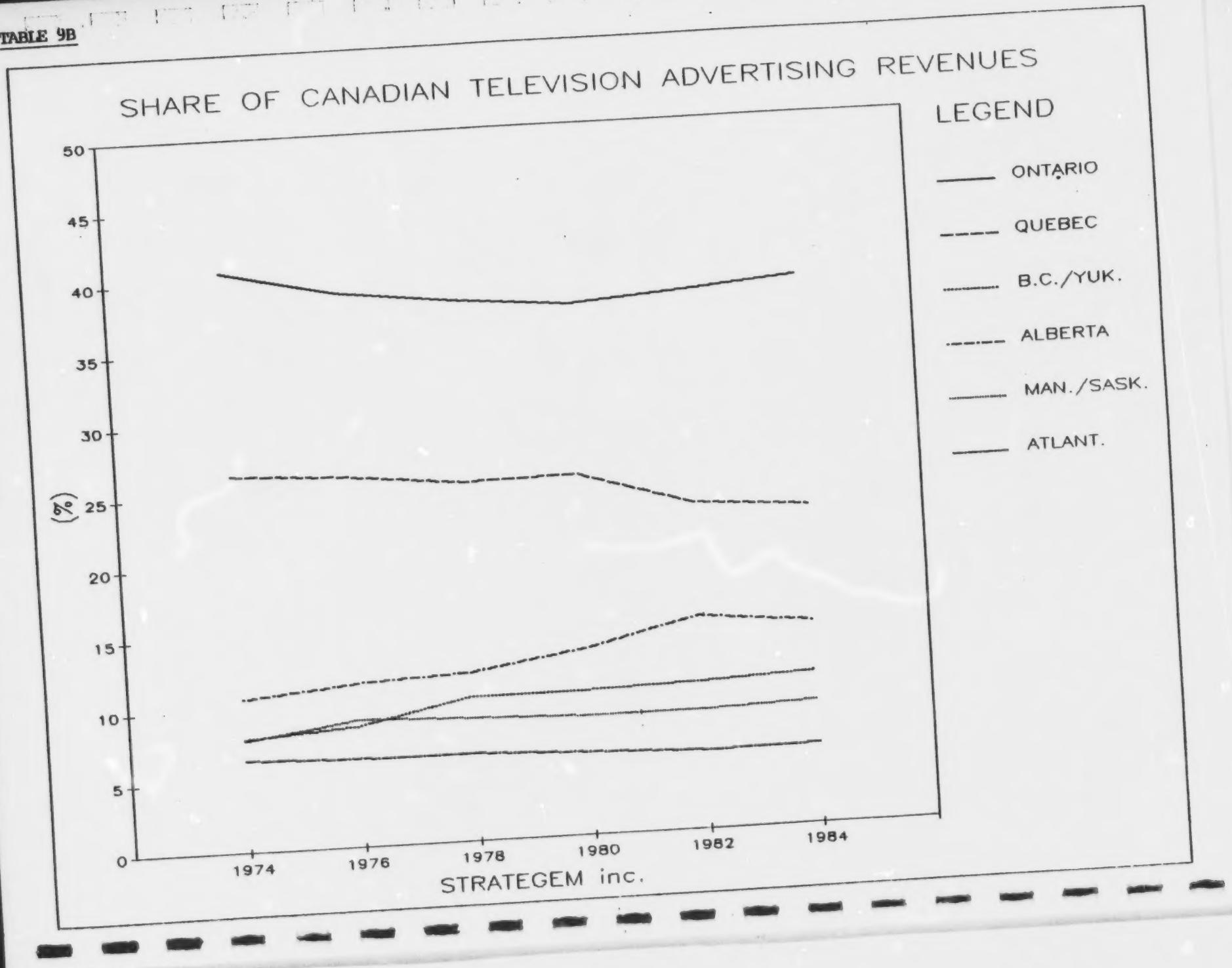
It is also interesting to isolate shares for each region in the Canadian market (extracted from Appendix 2A).

SHARE OF CANADIAN TELEVISION ADVERTISING EXPENDITURES

	EASTERN CANADA			WESTERN CANADA		
	Quebec	Ontario	Atlant.	Man. Sask.	Alberta	B.C.
1974	26,4%	40,7%	6,4%	7,8%	10,7%	7.0%
1976	26,0	38,9	6,2	9.0	11.5	8.4
1978	25,2	38,0	6,1	8,7	11.8	10,2
1980	25,3	37,3	5,8	8,3	13,1	10.2
1982	22,9	37,9	5,5	8,4	14,9	10.4
1984	22,4	38,6	5,6	8,5	14,2	10.7

SOURCE Statistics Canada, Catalog 56-204

TABLE 9B


SHARE OF CANADIAN TELEVISION ADVERTISING REVENUES
LEGEND
ONTARIO
QUEBEC
B.C./YUK.
ALBERTA
MAN./SASK.
ATLANT.
50
45
40
35
30
25
20
15
10
5
0
%
1974
1976
1978
1980
1982
1984
STRATEGEM inc.

A few explanations for these lower numbers in Quebec could be a combination of the following factors:

1. A transfer from Eastern Canada notably Quebec to Western Canada of TV advertising dollars when Alberta was a fast growing market up to 1982.

2. Simulcast that permitted the English Canadian broadcasters to increase their ratings and therefore, their efficiency.

3. New independent stations in Alberta (Edmonton, B.C. (Vancouver) seem to have attracted more TV dollars in their respective markets. Table 10 shows that index of % TV revenues % of retail sales have increased sharply in 1975 and 1977, respectively.

4. The strong possibility of sold out inventory in prime time television in French Montreal and sometimes Quebec city during peak months.

5. Rate increases that were more important in English Canada than in Quebec over the years.

In the industry, there is a theory that suggests a direct relationship between retail sales and TV revenues.

As we have said before, many advertisers use their retail sales as a starting point to define their advertising budget. But the process does not usually stop there.

In Quebec, when we relate these two numbers, we find that the percentage of retail sales, compared with the rest of Canada remained constant.

But Quebec TV revenues did not follow the same trend as retail sales: TV revenues account for 22,4% of Canada and retail sales represent 25,0% in 1984.

For Quebec, and partly also for Ontario, if there were a relationship it is a decreasing one. (See table 10)

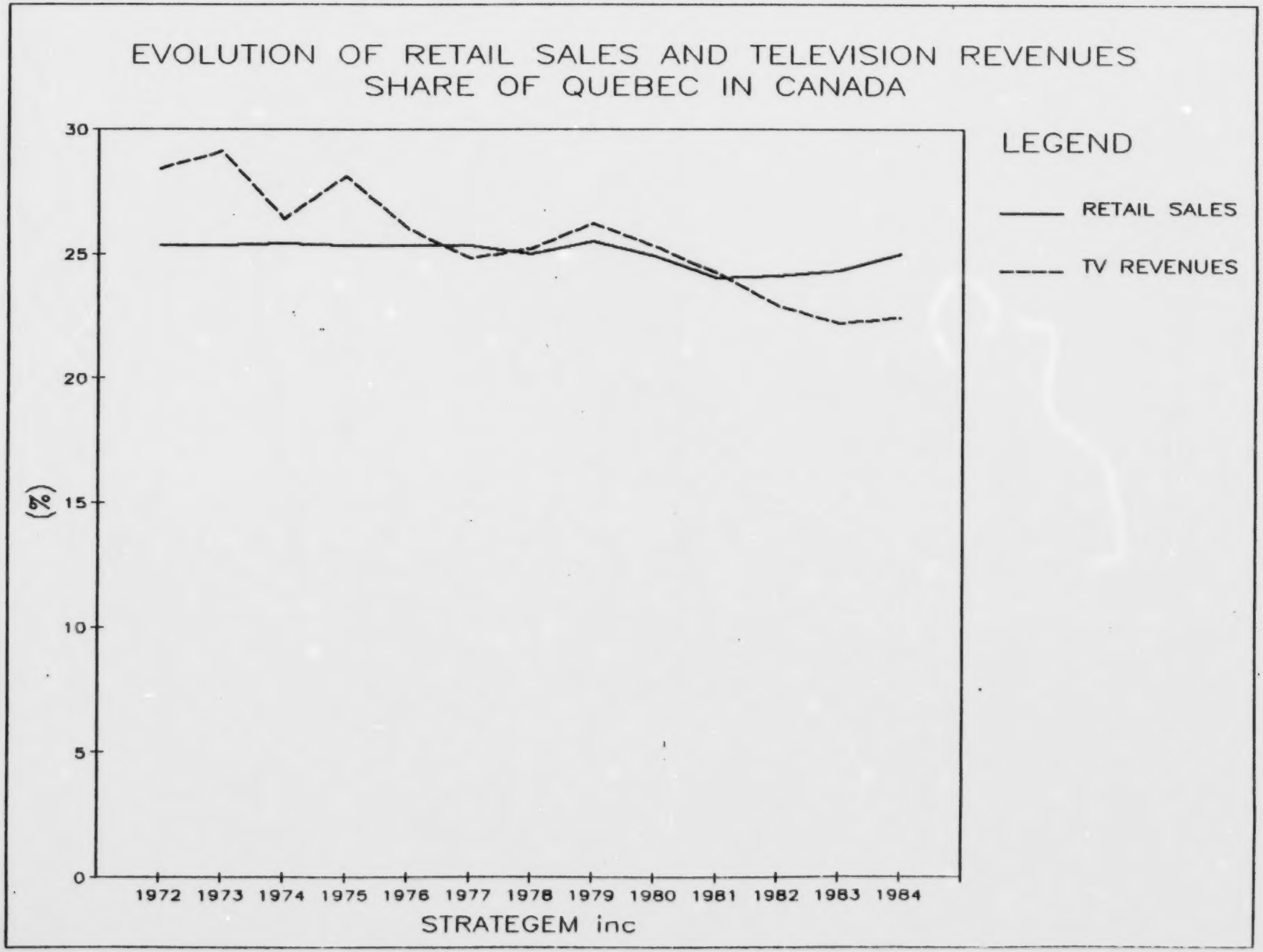
TABLE 10

RETAIL SALES AND TV REVENUES (%)
REGIONAL ANALYSIS (% OF CANADA)

	QUEBEC			INDEX % TV REVENUES/% RETAIL SALES			
YEAR	RETAIL	REVENUES	INDEX	ONTARIO	ALBERTA	B.C/YUKON	MAN./SASK.
1972	25,3	28,4	112	110	119	57	87
1973	25,3	29,1	115	113 (1)	139	63	102
1974	25,4	26,4	104	110	128	64	90
1975	25,3	28,1	111	116 (2)	141 (3)	75	100
1976	25,3	26,0	103	105	124	71	105 (5)
1977	25,3	24,8	98	103	123	86 (4)	105
1978	25,0	25,2	101	104	119	83	107
1979	25,5	26,2	103	105	116	84	104
1980	24,9	25,3	102	106	117	79	105
1981	24,0	24,2	101	105	120	81	104
1982	24,1	22,9	95	104	133	84	104
1983	24,3	22,2	91	103	139	90	107
1984	25,0	22,4	90	103	139	93	112

SOURCE: Statistics Canada
(1) Arrival of City-Toronto
(2) Arrival of Global
(3) Arrival CITV Edmonton
(4) Arrival CKVU Vancouver
(5) Arrival CKND Winnipeg

TABLE 10B


EVOLUTION OF RETAIL SALES AND TELEVISION REVENUES
SHARE OF QUEBEC IN CANADA
30
25
20
15
10
5
0
%
1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984
STRATEGEM inc
LEGEND
RETAIL SALES
TV REVENUES

LOCAL VS NATIONAL ADVERTISING

As shown in table 11, the television industry generates most of its revenues from national advertising: 78% in 1984. Moreover, the trend over the last decade is a shift from local to national advertising revenues.

The Quebec market is less "nationally" oriented than Ontario. All the other Canadian regions show about the same proportion as Quebec: Ontario is unique in its low proportion of local revenue.

1984	Quebec	Ontario	Canada
Local	31%	12%	~~22%~~ 31 %
National	69%	88%	~~78%~~ 69 %

2.2.2 THE RADIO INDUSTRY

As for the television industry, the Quebec radio industry is receiving less advertising revenues than the rest of Canada.

As reflected in table 12, the advertising expenditure per capita in radio reached, in 1984, 18.24 $ in Quebec against 22.87 $ for the rest of Canada.

Appendix 3C, in a more detailed manner, tells us that Quebec has always been the region on Canada where less money was spent per capita on radio advertising. Alberta and B.C. are the leaders in this area.

Compared with the United States, the difference is not as large as in the television industry:

1983	Quebec:	15.25 Can $ per capita
	Rest of Canada:	20.69 Can $ per capita
	United States:	22.26 US $ per capita

In terms of growth rate, Quebec is increasing more rapidly than the rest of Canada.

TABLE 12A

ADVERTISING EXPENDITURES PER CAPITA IN RADIO BROADCASTING
COMPARISON BETWEEN QUEBEC, CANADA WITHOUT QUEBEC, AND U.S.A. (CAN$ and US$)

	RADIO			INDEX 1974=100 RADIO		
	QUEBEC	CAN-QUE	U.S.A.	QUEBEC	CAN-QUE	U.S.A.
1974	6.10	8.77	8.52	100.00	100.00	100.00
1975	6.88	9.86	9.17	112.84	112.44	107.61
1976	8.24	11.34	N/A	135.06	129.30	N/A
1977	8.85	12.55	N/A	145.06	143.00	N/A
1978	10.10	14.01	13.69	165.59	159.71	160.66
1979	11.76	15.91	14.71	192.86	181.35	172.69
1980	13.04	17.46	16.24	213.69	198.97	190.60
1981	14.07	19.41	18.39	230.58	221.28	215.89
1982	14.98	20.32	20.13	245.52	231.64	236.30
1983	15.25	20.69	22.26	249.98	235.86	261.37
1984	16.24	22.87	N/A	266.00	260.70	N/A

Source: Statistics Canada, Catalog 56-204, 1974 to 1984
McCann Erickson Inc., New york
U.S. Bureau of the Census, Current Population Report, series P-25
Compilation Strategem

GROWTH RATE, (%) OF ADVERTISING EXPENDITURES IN RADIO:

	Quebec		Rest of Canada		United States	
1974-75	12,8		12,4		7,6	
1975-76	19,8		15,0		---	
1976-77	7,4	14,1	10,7	12,7	---	
1977-78	14,1		11,6		---	
1978-79	16,4		13,6		7,5	
1979-80	10,9		9,7		10,4	
1980-81	7,9		11,2		13,2	
1981-82	6,5	9,3	4,7	7,6	9,5	10,9
1982-83	1,8		1,8		10,6	
1983-84	19,6		10,5		---	

A closer look into each region reveals a shift from Ontario to Alberta over the years.

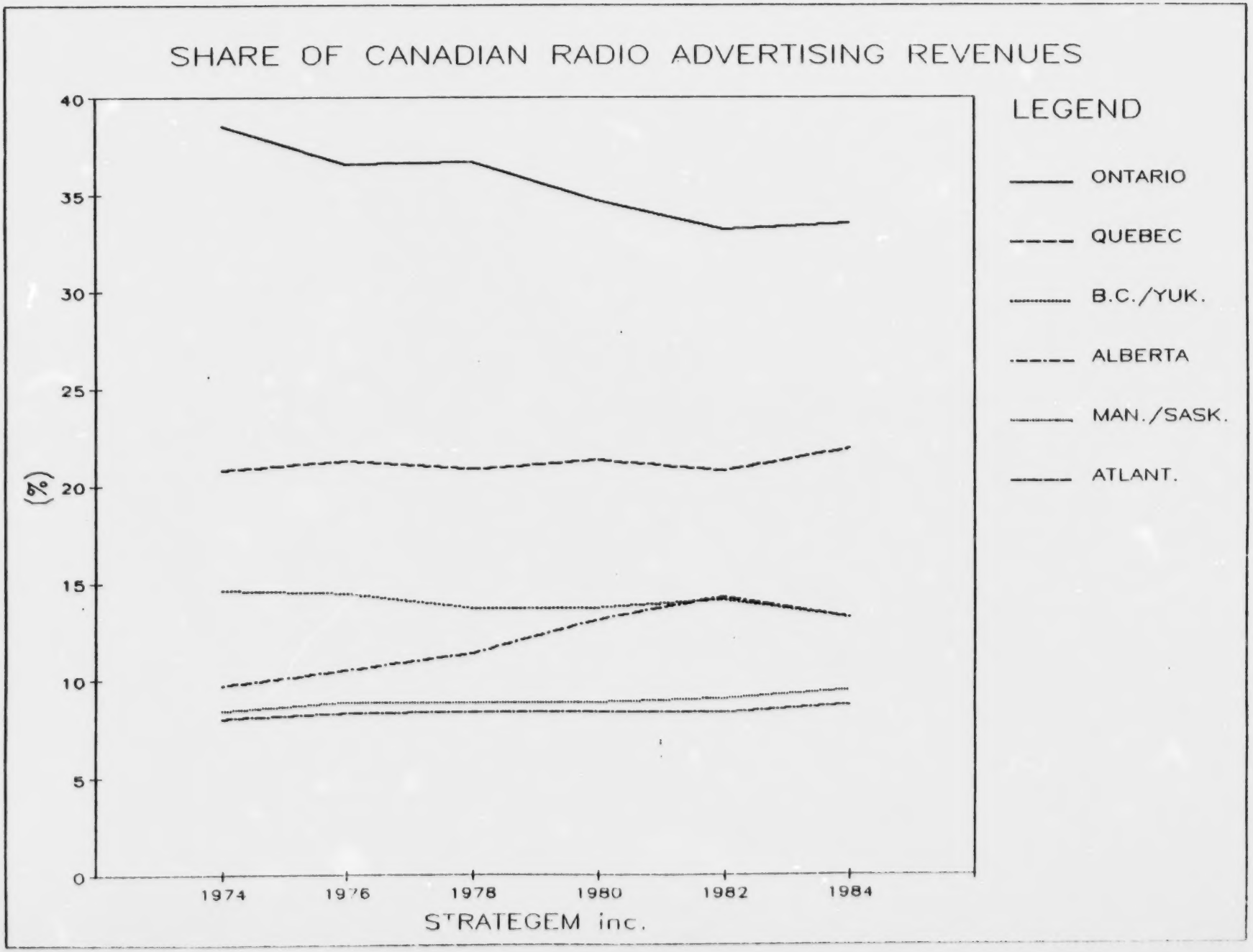
TABLE 14

SHARE OF CANADIAN RADIO ADVERTISING EXPENDITURES

	EASTERN CANADA			WESTERN CANADA		
	Quebec	Ontario	Atlant.	Man./Sask.	Alberta	B.C.
1974	20,8%	38,5%	8,0%	8,4%	9,7%	14,6%
1976	21,3	36,6	8,3	8,9	10,5	14,4
1978	20,9	36,7	8,4	8,8	11,4	13,7
1980	21,3	34,7	8,3	8,9	13,1	13,7
1982	20.8	33,2	8,3	9,0	14,3	11,2
1984	21,9	33,5	8,7	9,4	13,2	13,3

SOURCE: Statistics Canada, Catalog 56-204

TABLE 14B


SHARE OF CANADIAN RADIO ADVERTISING REVENUES
40
35
30
25
20
15
10
5
0
(%)
1974
1976
1978
1980
1982
1984
STRATEGEM inc.
LEGEND
ONTARIO
QUEBEC
B.C./YUK.
ALBERTA
MAN./SASK.
ATLANT.

Over the years, the Quebec share remains the same: around 21.2% of the Canadian radio advertising expenditures.

LOCAL VS NATIONAL ADVERTISING

Contrary to the television industry, most of the radio revenues is coming from local advertising.

Instead of finding a shift from local to national as it was in television, the radio revenues are slightly shifting from national to local. (Table 15

However, the Quebec market is not following that trend and remains at around 68% local and 32% national.

For radio, Quebec and Ontario markets are quite similar in their national/local proportions. They both differ from other regions where local revenues are more important.

1984	Quebec	Ontario	Canada (Excl. Quebec and Ontario)
Local	68%	70%	~~70%~~ 80%
National	32%	30%	~~30%~~ 20%

TABLEAU 15 B

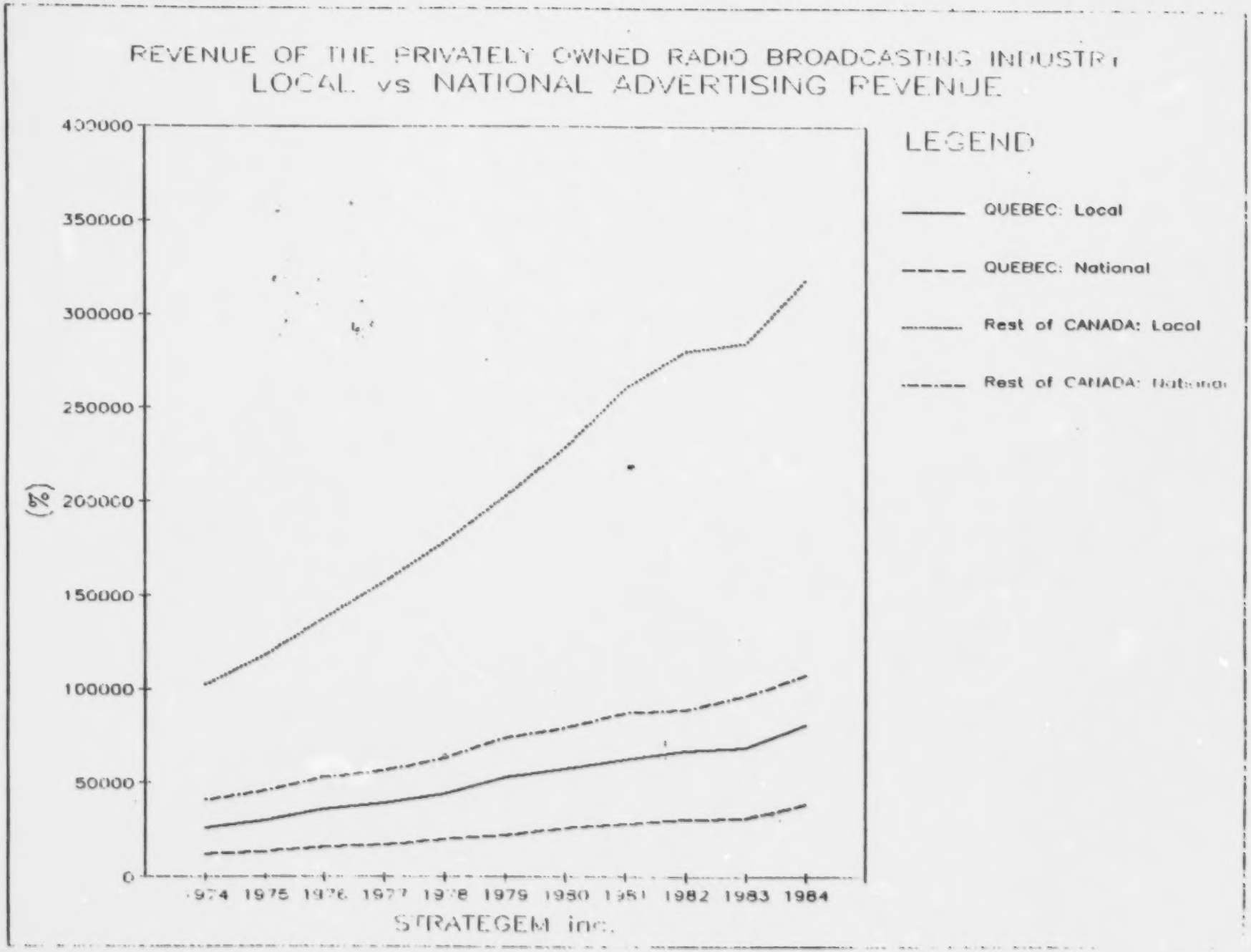

REVENUE OF THE PRIVATELY OWNED RADIO BROADCASTING INDUSTRY
LOCAL vs NATIONAL ADVERTISING REVENUE
400000
350000
300000
250000
200000
150000
100000
50000
0
$
1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984
LEGEND
QUEBEC: Local
QUEBEC: National
Rest of CANADA: Local
Rest of CANADA: National
STRATEGEM inc.

TABLE 15A

REVENUE OF THE PRIVATELY OWNED RADIO BROADCASTING INDUSTRY BY AREA, 1974 TO 1984, (%)

Comparison between Local and National Advertising

	QUEBEC	ONTARIO	ATLANT.	MAN/SAS	ALBERTA	B.C.	CANADA	CAN-QUE
1974 LOCAL:	0.68	0.67	0.79	0.74	0.74	0.78	0.71	0.72
NAT.:	0.32	0.33	0.21	0.26	0.26	0.22	0.29	0.28
1975 LOCAL:	0.70	0.67	0.79	0.75	0.75	0.77	0.72	0.72
NAT.:	0.30	0.33	0.21	0.25	0.25	0.23	0.28	0.28
1976 LOCAL:	0.70	0.67	0.80	0.76	0.74	0.77	0.72	0.72
NAT.:	0.30	0.33	0.20	0.24	0.26	0.23	0.28	0.28
1977 LOCAL:	0.70	0.69	0.81	0.79	0.77	0.76	0.73	0.74
NAT.:	0.30	0.31	0.19	0.21	0.23	0.24	0.27	0.26
1978 LOCAL:	0.69	0.69	0.81	0.80	0.78	0.74	0.73	0.74
NAT.:	0.31	0.31	0.19	0.20	0.22	0.26	0.27	0.26
1979 LOCAL:	0.71	0.68	0.82	0.79	0.76	0.75	0.73	0.73
NAT.:	0.29	0.32	0.18	0.21	0.24	0.25	0.27	0.27
1980 LOCAL:	0.69	0.69	0.83	0.78	0.76	0.78	0.73	0.74
NAT.:	0.31	0.31	0.17	0.22	0.24	0.22	0.27	0.26
1981 LOCAL:	0.69	0.70	0.83	0.80	0.76	0.78	0.74	0.75
NAT.:	0.31	0.30	0.17	0.20	0.24	0.22	0.26	0.25
1982 LOCAL:	0.69	0.70	0.84	0.81	0.76	0.81	0.74	0.76
NAT.:	0.31	0.30	0.16	0.19	0.24	0.19	0.26	0.24
1983 LOCAL:	0.69	0.69	0.85	0.81	0.75	0.78	0.74	0.75
NAT.:	0.31	0.31	0.15	0.19	0.25	0.22	0.26	0.25
1984 LOCAL:	0.68	0.70	0.86	0.79	0.74	0.78	0.73	0.75
NAT.:	0.32	0.30	0.14	0.21	0.26	0.22	0.27	0.25

Source: Statistics Canada, Catalog 56-204, 1974 to 1984

B. QUALITATIVE ASPECTS

1. MECHANISMS WITHIN THE MARKET

1.1 ADVERTISING BUDGET DETERMINATION

Advertising budgets will be allocated differentely if the client is national or local.

NATIONAL CLIENTS

One of the most difficult tasks facing advertising people is that of determining the optimum amount of money to spend for advertising. This is a problem that seems to defy solution despite the time and thought that have been given to attacking it.

The main difficulty in determining the budget size is that no one knows precisely how a given amount of money spent for advertising will affect sales or other marketing goals.

In order words, there is no simple cause and effect relationship between the amount of money spent and the sales results that are supposed to occur because of the expenditure. Some advertisers have been able to learn from experience how much money they should spend to obtain a desired share or sales volume at a given time. But even these advertisers do not assume that the relationship will remain constant at all times. At some time or another, they and most other advertisers are in the same quandary about how much to spend on advertising.

What further complicates the matter is that each brand usually has a number of competitors whose changing activities make it difficult to anticipate correctly what they will do. The dynamic marketplace situation makes the task of budget setting - including having to estimate probable competitors' activities and allow a portion of money for contingencies - a difficult task for most advertisers.

Finally, advertising is not the only factor that contributes to the sale of a product. Other elements of the marketing mix, such as pricing, sales promotion, personal selling, and packaging, also play a role. But who can separate the precise contribution of advertising from the effects of the other marketing mix elements? Few, if any.

Despite these problems, advertising budgets must be established, and the task is performed based on as much knowledge as is available at the moment.

1.2 METHODS OF SETTING BUDGETS

There are a number of widely used methods of determining the budget. Those used most often tend to be simple to understand and quick and easy to compute.

1.2.1 Percent-of-sales

In the percent-of-sales method, an advertising budget is determined by multiplying projected sales revenue for the year by a given percentage. The amount of money available for advertising purposes, therefore, is based directly on the sales achievement of the brand. As sales increase, so does the advertising budget. But as sales decline, the budget also declines.

The heart of this method is the multiplier, the percentage by which the sales base is multiplied. In determining which percentage to use, one must consider the cost of goods and the pricing policy of each industry.

The key to this method of setting budgets is that of finding the best multiplier. Many times this multiplier is determined arbitrarily. At other times, industry standards may be used as a base.

Many discussions on the percent-of-sales method of budgeting often give the impression, however, that the method is totally inflexible. This is not true. Often the percent of sales may be only the starting point. After the percentage is multiplied by gross sales, the total may be adjusted to compensate for special marketing situations. When there are special marketing needs, extra dollars are added. Some companies, instead of adding to the total, will raise the multiplier when they are introducing a new product or when they are faced with very heavy competition. In some instances, however, the percentage multiplier remains constant year after year no matter how much sales may vary. When this happen, the multiplier tends to become a historical figure that is rarely questioned.

The multiplier is also affected by product pricing. Sales of low-ticket products such as drugs or supermarket items depends heavily on advertising, while high-ticket items such as appliances, cars, and home furnishings are less dependent on advertising.

However, there are many criticisms of the percent-of-sales method. It may well be illogical because advertising is based on sales rather than the other way around. When sales decline, less advertising money will be spent when perhaps more money should be spent. Also, unless the advertising-to-sales ratios are analyzed by area, better sales areas will tend to get better and weaker sales areas will get little relief. This technique also assumes that there is a direct linear realionship between advertising and sales, which is not always true.

Another criticism of this method is that it does not encourage companies to provide the research money needed to find the relationship between advertising and sales.

On the other hand, if all competitive brands used this method and employed about the same percent multiplier, advertising budget sizes would be approximately proportional to market share, thus limiting investment spending for advertising warfare among competitors.

1.2.2 Competitive spending

The competitive spending method depends on setting the budget in relation to the amount of competitive spending. The amount to be spent need not be precisely the same as that of competitors. However, a brand that has a smaller market share than its competitor may be given an amount equal to or greater than the competitor, as a means of improving the share position.

A major criticism of this approach is that it assumes that competitors know what they are doing or that competitors' goals are the same as one's own. It also assumes, incorrectly, that a simple increase in advertising expenditures will automatically increase sales and/or market share. The products of competitors may be different, or at least consumers may perceive them as different, so that a company's advertising may have to work much harder to make sales than competitors' advertising. Certainly, the marketing goals of one company are not the same as another, and the ability of advertising to create sales also is not the same.

1.2.3 Expenditure Per Unit (Case-Rate)

This system is a variant of the percent-of-sales method. In the case-rate method, the budget is generated as a result of sales, but units sold, not dollar sales, are used as the base. Many of the same advantages and disadvantages of the percent-of-sales method apply also to this method.

1.2.4 Subjective Budgeting

These budgeting systems involve decisions made on a subjective basis. Essentially, the executive whose responsibility it is to determine the budget size uses experience and judgement as a basis for decisions. This is not to say that such executives would not consider some objective factors as well, such as first determining the minimum job that advertising will be required to do, or perhaps considering available profit margins as a basis. But after such considerations, the final figure is decided upon rather subjectively.

One subjective budgeting method is known as "all we can afford." While at first glance, this approach may seem illogical or crude, it may be quite realistic if the subjective decision is accurate. On the other hand, a budget made on such a basis is hard to defend, especially when there is reason to believe that if more money were appropriated, the result would be higher sales and higher profits.

1.3 METHODS USED MOST OFTEN

Table 16 compiled by Andre J. San Augustine and William Foley, gives some indication of the prevalence of methods currently in use.

Table 16

METHODS 100 EXECUTIVES USE TO SET ADVERTISING BUDGETS*

METHODS	CONSUMER PRODUCT COMPANIES AVERAGE (%)	RANK	NONCONSUMER PRODUCT COMPANIES AVERAGE (%)	RANK
% OF ANTICIPATED SALES	50	1	28	2
ALL THAT IS AFFORDABLE	30	2	26	3
OTHERS (NOT SPECIFIED)	26	3	10	5
PERCENT OF PAST YEARS' SALES	14	4	16	4
ARBITRARY APPROACH	12	5	34	1
UNIT ANTICIPATED SALES	8	6	10	5
OBJECTIVE AND TASK	6	7	10	5
UNIT PAST YEARS'SALES	6	7	4	6
QUANTITATIVE MODELS	2	8	0	7
DON'T KNOW	2		2	
TOTAL**	156		140	

*Sample consisted of two executives from each of 25 nonconsumer product companies, and 25 consumer product companies. One was a financial executive and the other an advertising executive. The averages are of two percentages representing two executives per company.

**Adds up to over 100 percent because of multiple responses.

Source: San Augustine, A.J. and Foley, W.F., "How Large Advertisers set their Budgets,"Journal of Advertising Research", October 1975

LOCAL CLIENTS

The determination of the advertising budget among local clients is not quite as sophisticated as for national clients.

The model is not as "scientific". The budget determinants are usually the following:

- A percentage (%) of sales

  As we expressed it already for national clients, it is usually the "easiest way" to "reassure" clients that they are investing the "right" amount of money". This method is used more and more as a new breed of local clients have been created in recent years: (Ex: multi outlet chains: Rona, Métro Richelieu, Mc Donald's). These clients operate like national clients: their media strategy is designed by advertising agencies, their media objectives are very precise and cost efficiency is important to them.

Because these multi-outlets are often franchised, broadcasters and media reps usually define this type of client as a local one.

As the number of outlets will tend to grow, more advertising dollars will be generated by contribution of additional sales.

- Available dollars

  It is the equivalent of "all we can afford" of national clients.

- Competition

  The typical retailers tend to be more "nervous" about what their competition does. They react more quickly and usually more emotionnally than the national clients.

To them, cost efficiency, cost per thousand, creative strategy are not the main points. "Perceived" noise level and visibility are more important. To follow what competition does is also often their "advertising reaction".

- Coop advertising

Many manufacturers will allow retailers money out of their promotion budget to advertise locally their brand. Example: Panasonic and Germain Larivière.

Local merchants will also tend to form a group to increase their "buying power" in the media. Often, this will permit the group to "afford" T.V. Example: Nissan dealers of Montreal.

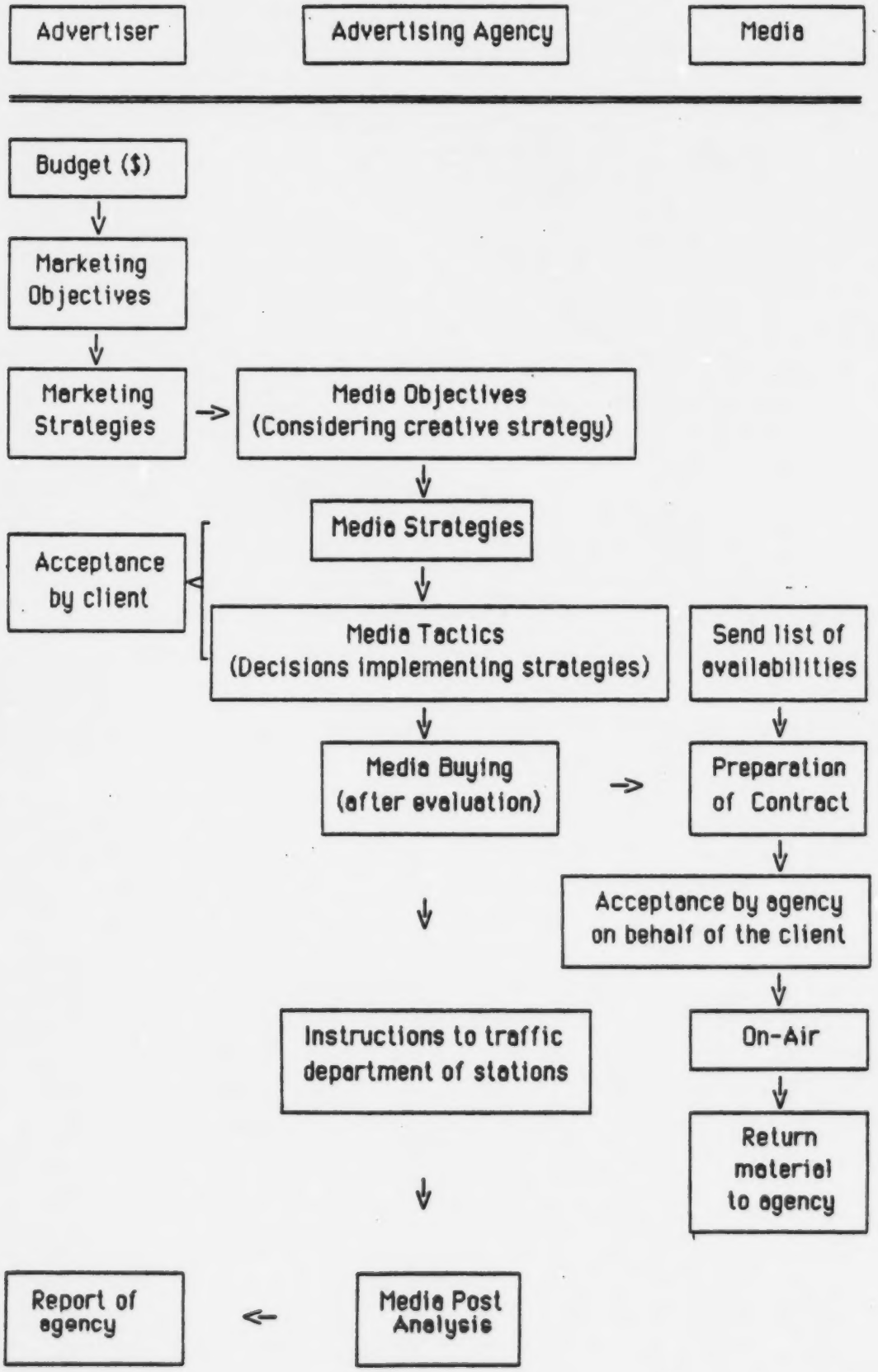
The one-store operators tend to be less numerous in the market because of these "associations", the franchised dealers and the coop money available from manufacturers.

1.4 MEDIA SELECTION

If budget allocation is not on easy task, on the contrary, media selection is quite easy to understand. It is also a constant "way of doing things" among national clients.

Table 17 illustrates the mechanics of media selection.

TABLE 17


Advertiser
Advertising Agency
Media
Budget ($)
Marketing Objectives
Marketing Strategies
Media Objectives (Considering creative strategy)
Media Strategies
Acceptance by client
Media Tactics (Decisions implementing strategies)
Send list of availabilities
Media Buying (after evaluation)
Preparation of Contract
Acceptance by agency on behalf of the client
Instructions to traffic department of stations
On-Air
Return materiel to agency
Report of agency
Media Post Analysis

1.4.1 MARKETING OBJECTIVES

A number of marketing goals for a given brand. Presumably they are based on best opportunities for sales or solving other marketing problems.

Example: to increase brand share of market by 5% over last year.

1.4.2 MARKETING STRATEGIES

A number of preconceived marketing decisions, organized into a unified plan of action aimed at attaining marketing objectives.

Example: concentrate on stealing customers from competitors by using ads that show ways in which our brand is better than theirs.

Creative strategy must be taken into consideration in setting media objectives. All creative executions are not possible in all forms of media.

Example: Plan media selections so as to deliver at least 80% of both our and competitors'target group.

1.4.4 MEDIA STRATEGY

A number of broadly conceived media decision, organized into a unified plan of action aimed at attaining media goals.

Example: Frequency goal: 6,4 times. Use TV supported by print (newspapers). Use 30 second ads in television. Buy 800 Gross Rating Points's in all markets. Support TV with newspapers in major markets. Use 1,000 line ads.

1.4.5 MEDIA TACTICS

A number of very specific decisions that implement the media strategy. In many instances, these decisions serve as a basis for media buying.

Example: Use radio at a 60% reach level and a frequency of 4,5 times per week. Find the right media combination on the right radio station that will reach the target group at the lowest cost per thousand (CPM).

1.4.6 MEDIA BUYING

Actual purchasing decisions involving the selection and use of media.

Example: Make purchase of best alternative media according to the specifications laid down in strategy and tactical plans, and according to any other specifications (such as creative requirements).

1.4.7 MEDIA POST-ANALYSIS

Once the media plan has been implemented and the schedules completed, the media planner examines how closely the media cost estimates compare with actual costs.

Major variations between cost estimates and actual plan delivery shall be explained and reported to client.

1.4.3 MEDIA OBJECTIVES

A number of media goals, all related in some way to helping attain marketing objectives, or related to marketing strategy.

The most frequent media objectives are:

- o target group: demographic, socio-economic, psychographic, product users.
- o media timing: when to advertise based on seasonality of sales or demand for a given product.
- o markets: where to advertise based on distribution and availability of product and availability.
- o Minimum reach frequency levels: client might ask to reach a minimum of 80% of target group a minimum of X times.

A level of tolerance of ± 10% is usually accepted.

Example: A Royal Bank TV plan of 800 Gross Rating Points's is estimated at a cost of $95.00/GRP - Adults 18+, in the French market of Montreal. Actual delivery was 783 Gross Rating Points's (97,9% of plan) at a cost of $97.03/GRP.

Table 18 summarizes some of the most important variables that may be manipulated in planning.

Table 19 shows some of the marketing objectives and strategies that may affect media variables.

These two tables indicate clearly that media selection is a very flexible exercise and it is only when carefully completed that advertisers/agencies will then select TV, radio or any other media.

Table 10

VARIABLES THAT MAY BE MANIPULATED IN MEDIA PLANNING

1. CONSTRAINT VARIABLES
   - a. Budget size
   - b. Creative strategy
   - c. Nature of product
   - d. Nature of the brand
   - e Past use of media
   - f. Competitive uses of media
   - g. Competitive spending in media.

2. MEDIA PLAN OBJECTIVES VARIABLES
   - a. Recall (or market coverage) needed
   - b. Frequency needed
   - c. Continuity patterns needed

3. MEDIA STRATEGY VARIABLES
   - a. Strategy concept variables: concentration, media dominance, flighting
   - b. Levels of reach needed
   - c. Levels of frequency needed
   - d. Weighting proportions:
     - By geographical markets
     - By demographic targets
     - By heavy-user targets
     - By season
     - By gross rating point levels
   - e. Schedule length
   - f. Schedule patterning
   - g. Cost efficiency standards
   - h. Discounts
   - i. Allocation of budget to media or markets or both
   - j. Number of ads or commercials to be run.
   - k. Number of different media to be used
   - l. Number of different markets to be used.

4. OTHER VARIABLES
   - a. Size of ads or lengths of commercials
   - b. Kind of sponsorship in broadcast media
   - c. Use of qualitative factors
   - d. Availability of media units.

SOME MARKETING VARIABLES THAT AFFECT MEDIA STRATEGY VARIABLES

1. INTRODUCTION OF NEW PRODUCTS
   a. Roll-out patterns
   b. Key market patterns
   c. Broad-scale national introductions

2. INCREASING MARKET SHARE REQUIREMENTS
   a. Steal from competitors
   b. Get present users to consume more
   c. Expand the entire market

3. CHANGES NEEDED IN BRAND IMAGE
   a. Requiring new creative strategy
   b. Requiring new timing strategy

4. CHANGE IN CORPORATE IMAGE
   a. Requiring new creative strategy
   b. Requiring new timing strategy

5. CHANGES IN BRAND POSITIONING
   a. Requiring new creative strategy

6. REDUCTIONS IN THE ADVERTISING BUDGET CAUSED BY
   a. Attempt to increase profits
   b. Attempt to cut losses
   c. Production problems of all kinds

7. INCREASES IN THE ADVERTISING BUDGET CAUSED BY
   a. Movement into new market
   b. New product introductions
   c. Need for any changes in communication

8. CHANGES IN SALES PROMOTION STRATEGY
   a. New relationship between sales promotion and advertising.
   b. New or different sales promotion techniques required.

9. TEST MARKETING SITUATIONS
   a. Testing various budget levels in different markets (same media)
   b. Testing various budget levels in different market (different media)

10. CHANGES IN THE LIFE CYCLE OF A PRODUCT: GROWTH, MATURATION, DECLINE.

11. MEETING COMPETITIVE MARKETING STRATEGIES HEAD ON

2.1. BROADCAST MARKETS IN QUEBEC

As we have seen earlier, television and radio do not have the same importance in terms of dollars volume in Quebec. And as we will see later, actual radio and television buying differs in many ways. For these reasons, radio and television should be treated separately whenever possible. Advertisers will also use them for different reasons.

2.1.1 TV MARKETS

In Canada, there are 42 television markets. In the advertising business, they are usually split in 4 categories:

"A" markets (over 1,000,000)

Montreal, Toronto, Vancouver

"B" markets (between 500,000 and 1,000,000)

Calgary, Ottawa, Edmonton, Winnipeg and Quebec

"C" markets (between 100,000 and 500,000)

Kitchener, Halifax, London, St-John's, Regina, Sudbury, Timmins/North Bay, Saskatoon, Chicoutimi-Jonquière, Sherbrooke, Thunder Bay, Trois-Rivières, St-John/Moncton.

"D" markets

All others

As a general trend on the North American continent, that national advertisers tend to concentrate more of their dollars into top markets. The principal reasons are:

- Cost of TV has increased more than the consumer price index during the past years. Advertisers want to keep a high level of media weight in these top markets. Therefore, they tend to pull out some money from the smaller markets.

- Economic growth expectations look better in larger markets for the coming years.
- Many new products, new services, new concepts appeal to the "baby boomers"and the "yuppies". These targets are mostly found in major urban centres for fitness centres, courrier services, frozen foods, etc.

In Quebec, the % of the budget allocated is usually done on one of three methods:

1. Quebec, as a % of total sales. Example: 25% of Canadian sales = 25% of advertising dollars.

2. Quebec, as a % of total sales but also taking into account the % population in the target segment. Some index numbers will then be used to analyze markets.

Example:

PROVINCE	% POPULATION	% SALES	INDEX
QUEBEC	26	30	115
ONTARIO	36	50	139
MARITIMES	9	3	33
WESTERN CANADA	29	17	59

3. The Top markets in Canada

In this method, if only A and B markets are used, or the top "C" markets only, Quebec will not have a relative "fair share" of budget.

If one of top 2 methods is used to allocate dollars in Quebec, again each market has a different importance within the province:

"A" markets

Montreal (French and English)

Quebec

"B" markets

Sherbrooke

Trois-Rivières

Chicoutimi-Jonquière

Hull (Ottawa French)

"C" markets

Rimouski/Matane/Sept-Iles

Rivière du Loup

Rouyn

Carleton

Even so, Sherbrooke and Trois-Rivière are sometimes more important than Chicoutimi/Jonquière. Hull ("French Ottawa") will often be avoided by clients because of its low % of francophones and its bilingual factor: a large group of the French speaking population cannot be reached via French TV or radio in this market. Some indications from Toronto point out that some national advertisers are reconsidering English Montreal as a primary market in the province, because of its expensive cost.

2.1.2 RADIO MARKETS

In radio, the A, B and C markets are basically the same as for TV in Canada.

The difference with tv is that radio is more "local",and has more signals in smaller towns and areas.

Within Quebec, the radio markets could be split in the following manner:

"A" markets

Montreal (French and English)

Quebec

"B" markets

Sherbrooke

Trois-Rivières

Chicoutimi-Jonquière

Hull (Ottawa French)

"C" markets

Rimouski

Rivière du Loup

Rouyn

Drummondville

Sept-Iles/Baie Comeau

Matane

"D" markets

All others

As for TV, usually the more urban a center is, the more national advertisers consider it as an important market. See table 20

Table 21 illustrates the relative importance of national and local advertising dollars within each economic area of Quebec for broadcast.

Over the years in radio, increased media costs have concentrated more of the advertising dollars in top markets, as for TV; this concentration may be even more acute in radio.

Table 22

BROADCAST NATIONAL ADVERTISING DOLLARS IN QUEBEC

MARKET AREA	% OF NATIONAL BROADCAST ADVERTISING DOLLARS	% OF POPULATION
BAS ST-LAURENT	1	4
SAGUENAY/LAC ST-JEAN	3	5
QUEBEC	16	15
TROIS-RIVIERES	4	7
CANTONS DE L'EST	4	4
MONTREAL	68	56
OUTAOUAIS	2	4
NORD OUEST ET COTE NORD	2	5
TOTAL QUEBEC	100	100

[illegible] SPECIAL TABULATION, MINISTERE DES COMMUNICATIONS DU QUEBEC.
1978.

TABLE II

BROADCASTING EXPENDITURES

MARKET AREA	% NATIONAL	% LOCAL	% OF POPULATION
MONTREAL	36	64	56
QUEBEC	30	70	15
CANTONS DE L'EST	27	73	4
OUTAOUAIS	20	80	4
TROIS-RIVIERES	17	83	7
SAGUENAY/LAC ST-JEAN	16	84	5
BAS ST-LAURENT/GASPESIE	15	85	4
NORD OUEST ET COTE NORD	14	86	5
TOTAL QUEBEC	30	70	100

SOURCE: SPECIAL TABULATION, MINISTERE DES COMMUNICATIONS DU QUEBEC, 1971.

2.2 COST OF RADIO AND TV IN QUEBEC

For a long time in the market, the industry said that: "Electronic media is cheaper in the province of Quebec". This acknowledgement was true for a long time: We did verify this assumption for the Fall 85 season for both media on a national basis. A local analysis is not possible, because there are too many different rates and different cases, as we will see in the sales policy of stations in a future section.

This cost analysis was performed in the top A and B markets of Quebec, where national advertisers concentrate. We compiled the actual CPM's for adults 18+ and adults 18-49 with comparable markets in English Canada.

The conclusions of this analysis are the following:

2.2.1 TELEVISION

- In the "A" markets, the cost of TV advertising in French Montreal compares with Toronto. English Montreal is the most expensive market in this category.
- In "B" markets, Quebec city was regarded before as "the most expensive market in Quebec" but as table 22 shows, it is now comparable to markets of same size. Hull (French Ottawa) also compares well with other cities.
- In "C" markets, cost in Quebec seems to be lower than in English Canada. In Chicoutimi/Jonquiere, prices are lower than in any category studied. It seems that fierce competition from both private broadcasters prevent price increases. Since last fall, there is also a "price war" between the two.

2.2.2 RADIO

- In "A" markets, Montreal (French) compares with the Toronto market. English Montreal is again the most expensive market in this category.

- In "B" market, French Ottawa (Hull) is very expensive, especially for adults 18-49: most probably because this market does not have any "young adult oriented" station.
  Quebec city is the least expensive market, mostly because CHRC/CHOI have been dominating the market with very high ratings compared to other stations and that their national prices are already high on a "cost per spot".

- In "C" markets, Sherbrooke and Trois-Rivières are comparable to other Canadian markets.

  Chicoutimi-Jonquière's cost is <u>much lower.</u> Probably because the 3 stations in the market are close but also because TV prices are very competitive: in some cases, to cover the full Saguenay-Lac St-Jean area, it will cost less to advertise on TV (covering both areas) than to advertise on radio (buying the Chicoutimi stations and the Lac St-Jean stations).

NATIONAL RADIO COST ANALYSIS
COST PER THOUSAND (CPM) FOUR SELECTED MARKETS

MARKETS	POPULATION CMA	ADULTS 18+ $	ADULTS 18-49 $
"A" MARKETS			
Toronto		2,83	4,32
Montreal (F)		3,00	4,49
(E)		4,22	6,81
Vancouver		3,64	5,76
"B" MARKETS			
Edmonton		5,75	8,47
Calgary		7,92	8,97
Ottawa (F)		7,29	11,35
(E)		6,51	9,52
Québec		2,93	5,85
Winnipeg		3,58	7,70
"C" MARKETS			
Chicoutimi/Jonquiere		3,39	4,97
Sudbury/Timmins/North Bay		8,16	10,81
Thunder Bay		6,25	9,50
Kingston		8,15	10,94
St-John		7,30	10,50
Sherbrooke		8,48	10,23
Trois-Rivieres		8,71	13,34

NATIONAL TV COST ANALYSIS
COST PER THOUSAND (CPM) FOUR SELECTED MARKETS

MARKETS	POPULATION CMA	ADULT 18 + $	ADULT 18-49 $
"A" MARKETS			
Toronto		4,60	8,50
Montreal (F)		4,50	8,75
(E)		6,05	12,50
Vancouver		4,00	8,00
"B" MARKETS			
Edmonton		7,80	11,00
Calgary		8,25	9,75
Ottawa (F)		6,50	13,00
(E)		6,15	13,10
Québec		6,50	13,75
Winnipeg		4,50	9,50
"C" MARKETS			
Chicoutimi/Jonquière		3,50	5,00
Sudbury		5,00	7,00
Thunder Bay		12,85	15,02
Kingston		10,00	12,05
St John		1,30	9,22
Sherbrooke		6,50	10,00
Trois-Rivières		7,00	11,00

2.3 SALES POLICY OF TV AND RADIO

TV and radio are sold and bought differently, though a lot of people tend to buy radio on the same basis as TV.

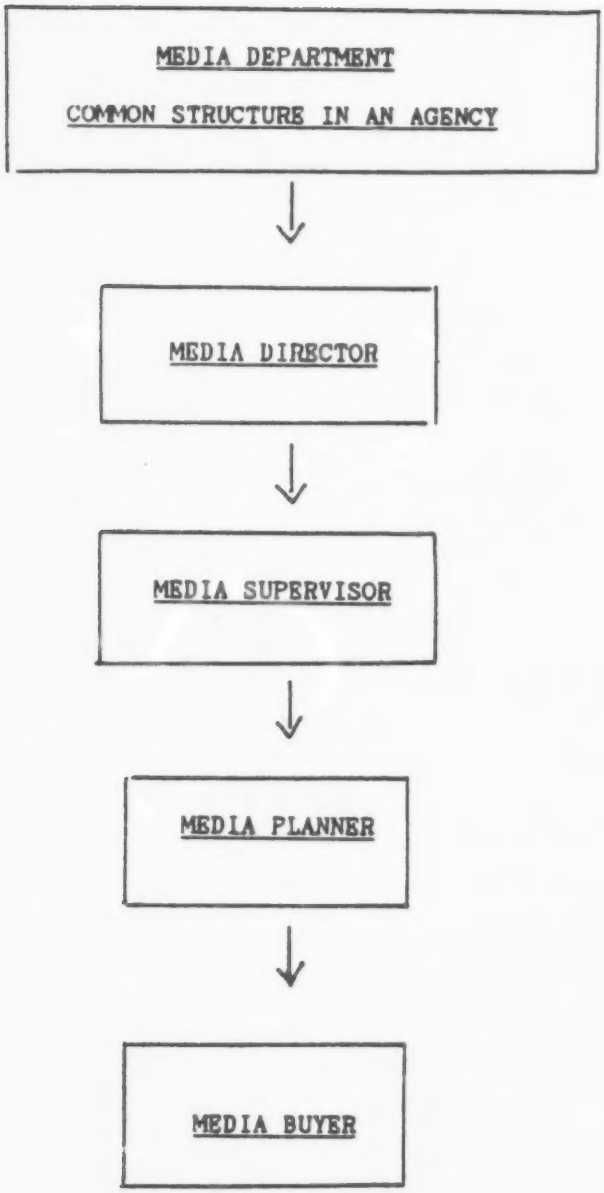
A. TV SALES

Broadcasters sell air time to three different "definitions" of clients:

2.3.1 NATIONAL ADVERTISERS (Coke, Bell Canada, Société des Alcools du Québec) usually represented by advertising agencies. The media department of the agency (usually represented by the buyer) deals with a national sales organization representing the TV stations.

Example: Paul Langlais Inc. reps CFTM Montreal, Communications A.C. reps CKRS Jonquière.

TABLE 24


MEDIA DEPARTMENT
COMMON STRUCTURE IN AN AGENCY
MEDIA DIRECTOR
MEDIA SUPERVISOR
MEDIA PLANNER
MEDIA BUYER

In general, TV is mostly used by advertisers because of :

- Its high potential of total reach among many target groups ("mass coverage")
- Its rapid awareness
- Its dynamic selling combining sight and sound

TV buying procedure is quite standard in an agency:

- o Availabilities of the station will be requested by the agency.
- o An evaluation of each show will be performed by the agency. This evaluation will also be performed by the rep house.

This evaluation will be based on one discriminant factor: cost per rating point (C.P.R.) i.e. the actual cost, in a given market, to reach 1% of target group (demographic) Example: Men 18- in French Montreal cost somewhere between $90.00 to $110.00 per rating point. The same target group might cost $40.00 to $50.00 in Quebec city. This cost is relative to the number of given people in the target group in each TV market. In general, the bigger the market, the higher the cost per point.

The agency will buy TV based on budgeted cost per rating point. Example: Montreal must be bought at an average of $95.00/Gross rating point (GRP) for men 18+.

- Once the evaluation is completed the agency will then pass on the official order to the rep house: the exact TV shows the agency selects for its client.

  Big national advertisers will even tend to negotiate the cost per rating point to lower it and to save money or add extra weight in the market.

- It will also happen more and more that TV reps will be given GRP objectives with a budgeted cost per point. Individual stations will be asked to submit a proposal and will be put one against the other to fight for the deal: the station that offers the "most efficient buy" will get the order:

  Example: Bell Canada wants to buy 150 adults 18-49 GRP's for a period of 6 consecutive weeks in the market of Trois-Rivières. The budgeted cost per point is $10.00.

  Total maximum budget is then :

  150 GRP's X 6 weeks X $10.00/GRP = $ 9,000.00

As "cost per rating point" becomes more and more the buying criteria for TV, the influence of sales reps as individuals tends to diminish. And a service approach becomes more appropriate.

2.3.2 REGIONAL ADVERTISERS usually "multi-unit franchises" tend to become more important for the TV industry.

The definition might vary from one broadcaster to another, but these "regional advertisers" are usually defined as "local". They are the Provigos, the Ronas, the Sports experts.

More and more, these clients work with an advertising agency, often a retail-oriented one. The principles of buying for this type of client will not differ very much from the national advertisers. If there is one thing though, regional advertisers will rely more on "cost per rating point" and will tend to negociate more.

Environment of a show, image are usually not important factors for this client as much as a national advertiser.

In the province of Quebec, because of this growing segment of clients, many TV stations outside Montreal define them as "regional clients" and a "regional rate card" will apply: a rate structure between national and local. The Pathonic organization (CFCM Quebec, CHLT Sherbrooke, CHEM Trois-Rivières, CFER Rimouski) is a good example of this.

2.3.3 LOCAL CLIENTS buy TV time on a less sophisticated manner. Advertising agencies in Québec will often represent the large retailer or the two to three store operator. This large retailer's TV buying will usually not be as "scientific" and this agency will buy whatever the sales reps say is good, as long as it is well documented and well presented.

The sales rep will have even more influence when dealing directly with a retailer. This retailer will usually buy what "he perceives" as being the best shows, the best buys. More than often, the TV buy will include TV programs the retailer or his wife watches! It is usually the first lesson a local sales rep ought to know!

All retail clients and regional clients will pay a price lower than the national rate card. The difference in price varies between 15 and 50% of national prices. Usually, the smaller the market, the wider the difference between national and local rates.

Most of the private broadcasters work with two, sometimes three rate cards. Only CBC-owned stations and CFCF have only one.

TV DISCOUNTS

All TV broacasters sell time at a discount rate under certain conditions:

- Packages. Most of the TV broadcasters will discount rate card by a minimum % if the advertiser combines prime time (6h00-11h00 pm) with other fringe buys (daytime, late night). Discounts will vary, but 15-20% is common in Quebec.
- Volume Discounts will be allowed.
  Example: 5% off for a year commitment of $500,000.00. This % has a maximum but most advertisers that pass it will negotiate a higher discount and private broadcasters will accept it. CBC never "deals" discounts.
- Continuity discounts are given to clients that sustain a campaign for a longer period of time.
  Example: 5% discount for a 26 week buy, 7% for 39 weeks, 9% for a 52 week commitment.

In recent years, this discount has been negotiated quite often by advertisers. For a " serious commitment", a 52 week discount will often apply to a shorter TV buy. The same thing happens in the magazine business: a 12 time insertion rate will often be allowed for a 6 time buy. By doing this in most cases for volume and continuity discounts, sales reps will "legitimize" the allowed discounts to an advertiser.

- A special discount will be allowed sometimes for a commitment before actual start of the TV season. This policy is recent (2-3 years) and to our knowledge the TVA people started it.

- Also recent is a "continuity" discount allowed for the buy of an insertion in each episode of a mini-serie. This mini-serie concept is getting to be more widespread in Quebec. Example: TVA will offer a 10% discount if a client buys the three (3) episodes of Hollywood Wives in French.

- Summer discounts have always existed: 10 to 20% off rate cards. But because summer TV viewing has been declining more during the past 3 years, broadcasters have increased this discount to about 30%. This does not offset totally the decrease in Summer viewership which averages 35 to 50% in Montreal. But it is still a good incentive for buyers, especially at the retail level.

- Winter discounts of 50% were offered this winter (1985-1986) for the first time by French CBC-owned stations for each second prime time spot bought during the period between December 16 1985 to January 26 1986. This period is usually the one that has the highest available inventory.

- Special promotion for retailers are also used more often by TV stations during certain periods of the year where inventory is high: January-February, summer. Retailers must invest a certain amount and they receive in return an increased number of spots based on a proposed plan.

- "Special rate cards" for retailers are also found in many regional stations with special plans built with a high proportion of outside prime time inventory. These cards are usually "typed on white paper" by the stations and are not circulating everywhere.

B. RADIO SALES

Radio is sold and bought differently than TV but radio still shares a few common grounds.

The basic definitions of advertisers are the same:

- national
- regional, buy on local rates
- local, the small retailer.

Again, in general, radio will be used most often for the following reasons:

o Its cost-efficiency when dealing with specific targets and demographics.

o Its frequency advantage over other forms of media (except outdoor)

o Its capability to insure that any given market will react quickly, within a few hours, or a few days.

These reasons are different than for TV. Also, because there is more competition in the market for radio (more stations, more options, more inventory), the process of radio buying differs from TV buying.

2.3.4 NATIONAL ADVERTISERS will buy radio via their agency from national rep houses, as for TV.

Because within a given radio buy, there are unlimited options and because costing of radio can be strenuous with the large number of stations, target groups and time periods, radio station selection is done more and more via the use of micro-computers. The performance of a station in its central market and its average quarter hour audience will be the discriminant factors.

In the province of Quebec, these micros are mostly found in rep houses. Advertising agencies are not into this yet. This contrasts sharply with Toronto where most agencies plan radio advertising with micros, "number crunchers" as they are called.

This situation is explained by the following:

- Computers are not common in media departments in Quebec. Agencies still use computers for accounting purposes.
- Traditionally, Quebec media people operate more often with their "gut feeling" than with "just numbers". That "qualitative input" is still wanted from the media industry.
- Agencies in Quebec did not invest a lot in media department: people, documentation, hardware. Up to recent years, media was regarded as being a "decisive " factor for an advertiser.
- The incapability of media software suppliers (all from Toronto, or the U.S.) to penetrate the Quebec market: language barrier, different media approach, limited number of potential clients.

- In Quebec, a national radio buy is usually executed by the agency under certain parameters given to the rep houses:
  - Target group (age group)
  - Impact needed (number of GRP's to be bought)
  - A reach/frequency objective: Example: to reach 50% of women 18+, an average of 6,0 times
  - An average cost per rating point (as in TV).

The rep house that comes closest to the set objectives of reach/frequency and cost will "influence" the radio buy dramatically. Of course, the radio plan generated by the rep house, (i.e.the actual buy of 3 or 4 stations), will typically include a fair share of spots on the station he represents. And in many cases, the rates of this station could be lowered to insure that cost efficiency is even or better than competition and to make sure the order gets through.

In radio, there is fierce competition all over but the top 2 or 3 stations in a given market have an advantage. Most buyers will buy only them or will make sure they are part of the plan, even if the cost efficiency is a bit over-average.

2.3.5 REGIONAL ADVERTISERS (franchises, voluntary groups, associations) are considered local clients by the radio people.

In many cases, as they are represented by agencies, they tend to work like national advertisers.

But as for TV, regional advertisers will put more emphasis on cost efficiency. There advertisers may even prefer one station to another in a given market, disregarding the profile of the station, even if it is important very often. Actual cost efficiency will be the only important variable. And because there are many stations in A and B markets, because the C and D markets are having a tough time to compete against concentration of dollars in larger markets, you will always find a private radio broadcaster ready to lower its price to get the order, this having a negative effect on radio stations revenues.

2.3.6 LOCAL CLIENTS are more numerous in radio than in TV.

The relationship between the local rep and the retailer is usually a strong one where the rep has a lot of influence on the final radio plan. A given rep from a given station will often act as a "counsellor" for other radio buys.

For small retailers, the price per spot is important and influences their radio buy.

If for $1,000.00 a retailer can buy 20 spots at $50.00 on one station, instead of 10 spots at $100.00 on another station, he will often prefer the first solution. He will perceive it as being "more for the money invested".

RADIO DISCOUNTS

Generally speaking, radio does not "discount" officially its prices. It negociates them most of the time.

For many advertisers, the rate card is set as guidelines. Most broadcasters, excluding maybe the top stations in top markets (and again, it is how you approach them!) will "sit down and talk" for an important commitment from a client. Again, as for TV, radio will "legitimize" its sale by using some of the following techniques:

- Give "bonus spots" as inventory makes it possible
- Match cost per point of competitive stations to steal a client.
- Build a promotion around a spot radio buy, where there will be giveaways, cut-ins by dj's, etc.

- Tighten the hours: broadcast spots between 8h00-9h00AM instead of the usual breakfast period, 6h00-10h00 am
- "Special promotion packages" exist, especially during January/February. Inventory is very high and media buyers that wish to travel South can make it easy with a minimum buy during these months.

2.4 INDUSTRY TRENDS

2.4.1 IMPORTANCE OF TORONTO

As more and more national advertising budgets are managed by Toronto agencies, decision making becomes more numbers oriented. Price negociations are also becoming more important: they are acutally a "fait accompli" in English Canada.
In the 1970's, it was "fashionable" for a national advertiser to have two agencies: one in Toronto for its English budget and a French one in Montreal (at least) for its French budget. This is no longer true: "times have changed" will say national advertisers.

For Quebec, the increased importance of Toronto for media decisions could be dangerous: because of the dependency on cost efficiency only, the English market of Montreal might be "avoided" more and more by national advertisers.

On the legal side, the 2% broadcasting tax, Bill 101, ban on children's advertising were never popular in Toronto. All these factors tend to "give reasons" to some categories of national advertisers to avoid Quebec.

2.4.2 CONCENTRATION OF DOLLARS IN LARGE SIZE MARKETS

We have covered this subject before. Normally advertisers make it clear that they concentrate more money in "markets where the potential of group is better". That is why it will be more difficult in years to come for "regional" broadcasters to attract national dollars.

Regional broadcasters will have to define an even more stronger local image especially in radio. In smaller markets, radio will compete even more with weeklies. Print is not regulated and during the past 5-6 years, many new free weekly tabloids have appeared in most regional markets of Quebec. Regional media will have to find a way to position themselves more aggressively: an "added-value" feature will have to be found. The increased penetration of Montreal and Quebec city FM stations are also cutting on local radio listening in regional markets.

2.4.3 NEGOCIATING BROADCAST PRICES IS BECOMING MORE A WAY OF LIFE TODAY IN QUEBEC.

As more decisions are taken from Toronto, the "philosophy" of negotiating rates will increase.

So far in Quebec, TV packaging has been relatively rigid. In English Canada mainly because of competition, prices are negotiated more within a given market and negociated packages are usual ways of doing business.

As regional clients (franchises, associations) are becoming more numerous, more broadcasters will have to "negotiate" rate card prices.

III. KEY FACTORS AFFECTING, AND AFFECTED BY, ADVERTISING REVENUES IN QUEBEC

This chapter will review key aspects of the advertising revenues in Quebec, as seen by participants in the industry, affected by key developments, as they relate to fees paid to creative talent, and as they relate to profitability of the stations.

A. REACTIONS WITHIN THE INDUSTRY

A series of interviews were conducted within the broadcasting and advertising community. This section presents what industry people had to say about the present and the future.

1.1 QUATRE SAISONS

Agencies and advertisers are pleased with the arrival of Quatre Saisons: it will increase inventory of prime time TV in Montreal and maybe Quebec if the CRTC permits it.

Broadcasters are not so pleased: they see a new competitor. Everybody seems to agree that Quatre Saisons should do well.

Radio is somewhat concerned about its own future, not specifically because of Quatre Saisons. The environment is changing and radio broadcasters are concerned by the following.

- Temporary loss of retail dollars for a short period of time because of Quatre Saisons.

Suite of (anglais/fr)

(1.2 RQ)

As it stands now, RQ is a complimentary service for prestige TV advertising and is not perceived as making large inroads in the TV advertising community.

Also because its sales personnel is not well acquainted with the advertising industry, because of its "unionized" image in the business community, RQ may never generate much advertising revenues. RQ does not speak the same business language.

1.3 DEREGULATION

If more than 12 commercial minutes per hour are made available to advertisers on TV, this could have a negative effect on a few things.

A tune out factor ("pollution") for TV viewers. In the U.S. where many shows offer "less interruptions" (but with more spots in each of them), many advertisers are not attracted by this type of programming.

More minutes mean more spots and more spots mean more clutter, more "advertising traffic". And recall scores of TV spots would diminish with more clutter. The arrival of 15 second messages on TV is already an important threat for recall scores.

C. ADVERTISING REVENUES AND CREATIVE TALENT

Advertising revenues generated in the broadcasting industry are used in part to pay for the services of creative talent. Fees received from the broadcasters constitute a significant source of income for creative talent. The level and breakdown of fees varies significantly between Quebec and the rest of Canada.

1. Definition of Creative Talent: Staff and Non Staff

There is no formal definition of creative talent used by the C.R.T.C., Statistics Canada or the C.A.B. However, the television and radio stations consider people such as comedians, newscasters, authors and writers as talent. Others such as producers, cameramen, audiomen are included elsewhere.

The fees paid to staff and non-staff talent are defined as follows:

- Staff talent:
  - fees paid to regular full-time employees in addition to regular salaries for specific talent assignments (ex: special programs); these fees are also included in "salaries and benefits", but can be taken apart.
  - does not include fees paid to regular full time employees or regular salaries which are included in "salaries and benefits".
- non-staff talent:
  - fees paid to the freelance performers contributing on an occasional ~~or~~ ongoing basis and not considered regular full-time employees.
  - talent fees paid to non-residents of Canada are included in non-staff talent fees, but are not significant.

2. Creative Talent in Television as a Proportion of Revenues

As seen in Table 24, creative talent used in Canadian private television production received fees totaling ? $ million in 1984; more than ? percent of this sum went to non-staff talent. As expected, most of the creative talent is concentrated in the major production centers, Montreal and Toronto: the two provinces account for 78 percent of non-staff talent fees.

When examined in proportion to total revenues, non-staff creative talent fees represent a much higher proportion in Quebec than in the rest of Canada. The Quebec proportion at 3.3 percent is twice that of Ontario at 1.8 percent, or that of the rest of Canada excluding Quebec with 1.4 percent (see Exhibit 1). This difference reflects the much higher proportion of Canadian content in dramas and other programs for French programming than for English programming on Canadian stations.

As a whole for the Canadian television industry, funds devoted to creative talent represent about 15 percent of pre-tax profits. Some room for improvement is clearly available.

The above figures focus solely on the programming side of broadcasting. Canadian creative talent also receives substantial fees from production of commercials for advertisers and agencies. Most of this production, more than 65 percent, takes place in Ontario; even French language commercials are sometimes filmed in Toronto (see Table 25). Generally, only local commercials and some French national commercials are produced in Quebec: but its share of total production revenues is in proportion to that of its population.

Any measure promoting the use of Canadian talent on Canadian television would clearly benefit the creative personnel. Can Canadian content rules be reinforced without undermining the attractiveness of programming on English Canadian channels?

Table 24

KEY FINANCIAL INDICATORS FOR THE CANADIAN PRIVATE TELEVISION INDUSTRY - 1984

(MILLIONS OF DOLLARS)

	ATLANTIC PROVINCES	QUEBEC	ONTARIO	PRAIRIES	BRIT. COL.	CANADA	CANADA (EXC. QUE.)
* REVENUE	47.1	207.9	353.5	198.3	92.7	899.5	691.6
* CREATIVE TALENT							
- STAFF							
- NON-STAFF	0.2	6.9	6.2	2.1	1.3	16.7	9.8
* PROFIT BEF. TAX	8.7	34.1	61.0	49.8	13.0	166.6	132.5

(PERCENTAGE OF REVENUE)

	ATLANTIC PROVINCES	QUEBEC	ONTARIO	PRAIRIES	BRIT. COL.	CANADA	CANADA (EXC. QUE.)
* REVENUE	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
* CREATIVE TALENT							
- STAFF	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
- NON-STAFF	0.4%	3.3%	1.8%	1.1%	1.4%	1.9%	1.4%
* PROFIT BEF. TAX	18.5%	16.4%	17.3%	25.1%	14.0%	18.5%	19.2%

- SOURCE: COMPILED FROM STATISTICS CANADA DATA.

Exhibit 1

NON-STAFF TALENT FEES FOR TV - 1984

(% OF REVENUE, BY REGION)

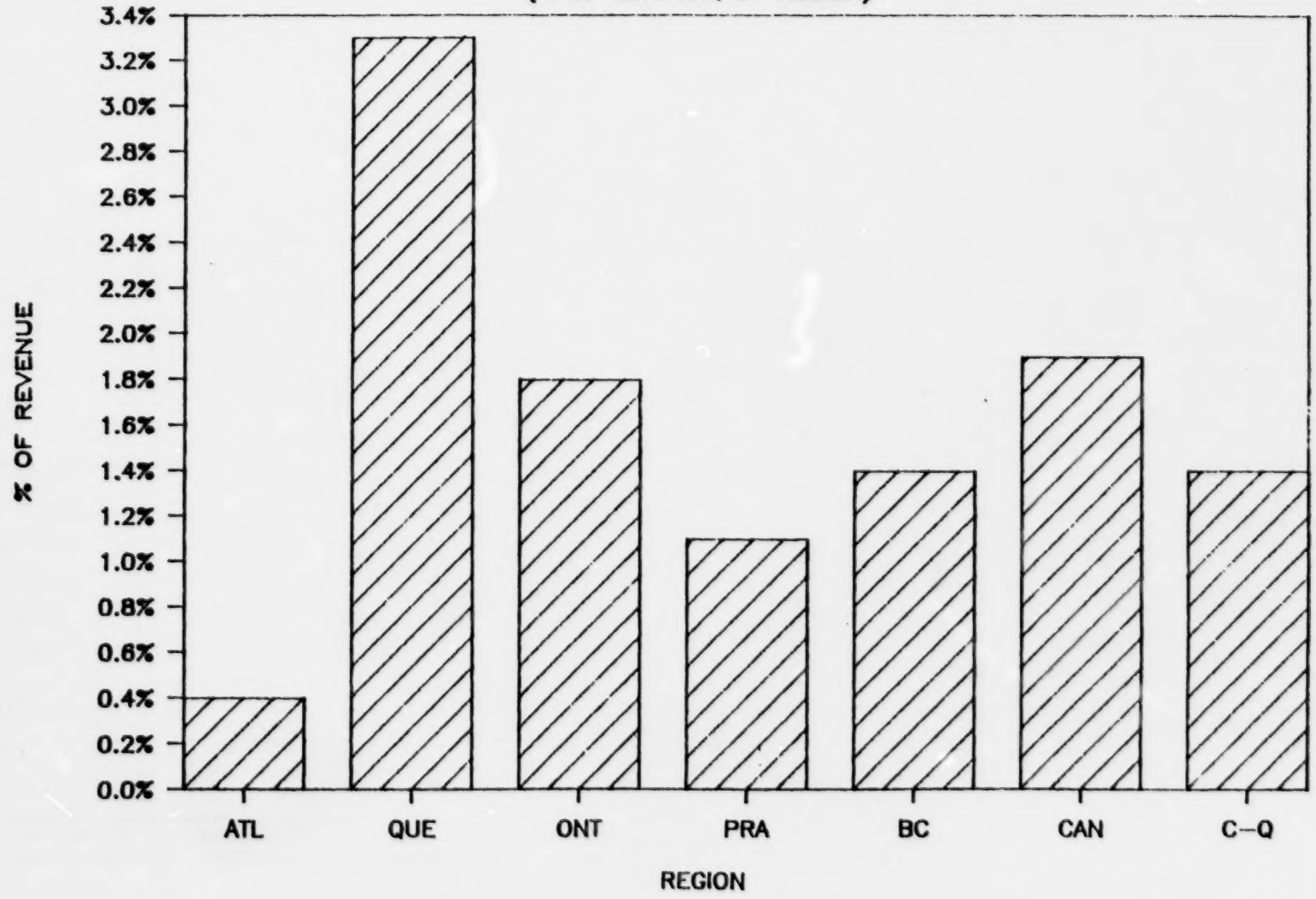


Table 25

REVENUE FROM TELEVISION COMMERCIALS PRODUCTION, BY REGION OF OPERATION OF PRODUCTION COMPANY, 1982 and 1983 ($ million)

REGION	1983	% OF TOTAL	1982	% OF TOTAL
ATLANTIC PROV.	X	-	0.1	0.2%
QUEBEC	17.7	29.0%	14.2	26.7%
ONTARIO	38.0	62.2%	34.7	65.2%
MAN./SASK.	1.4	2.3%	1.1	2.1%
ALBERTA	X	-	0.3	0.6%
B.C.,YUKON,N.W.T.	3.7	6.1%	2.8	10.7%
TOTAL	61.1	100.0%	53.2	100.0%

- X: CONFIDENTIAL

- SOURCE: STATISTICS CANADA, "STATISTICS ON MOTION PICTURE, VIDEO AND AUDIO-VISUAL PRODUCTION"

3. Creative Talent in Radio as a Proportion of Revenues

As seen in Table 26, creative talent in the Canadian radio industry received fees totaling $18.1 million; more than 46 percent of those funds went to non-staff talent. Of the non-staff talent fees, 69 percent were concentrated in Quebec and Ontario; of staff talent fees, 90 percent were in these two provinces.

As a percent of total revenues, non-staff creative talent is higher in Quebec than in any other province. The Quebec proportion is 2.2 percent, compared to 1.7 percent in Ontario and 1.3 in Canada excluding Quebec. Ontario has the highest proportion for staff talent fees at 3.7 percent; Quebec is at the second rank, at 1.5 percent. This is shown in Exhibits 2 and 3.

As a whole for Canada in 1984, funds devoted to creative talent represent ~~about~~ more than one-half of pre-tax profits. This proportion is much higher than in television broadcasting. This high proportion is due in good part to the profit squeeze experienced in recent years in the radio industry as described in another section below.

Any measure applying even more cost pressures to the Canadian radio industry might have adverse consequences on the present base.

Exhibit 2

NON–STAFF TALENT FEES FOR RADIO – 1984

(% OF REVENUE, BY REGION)

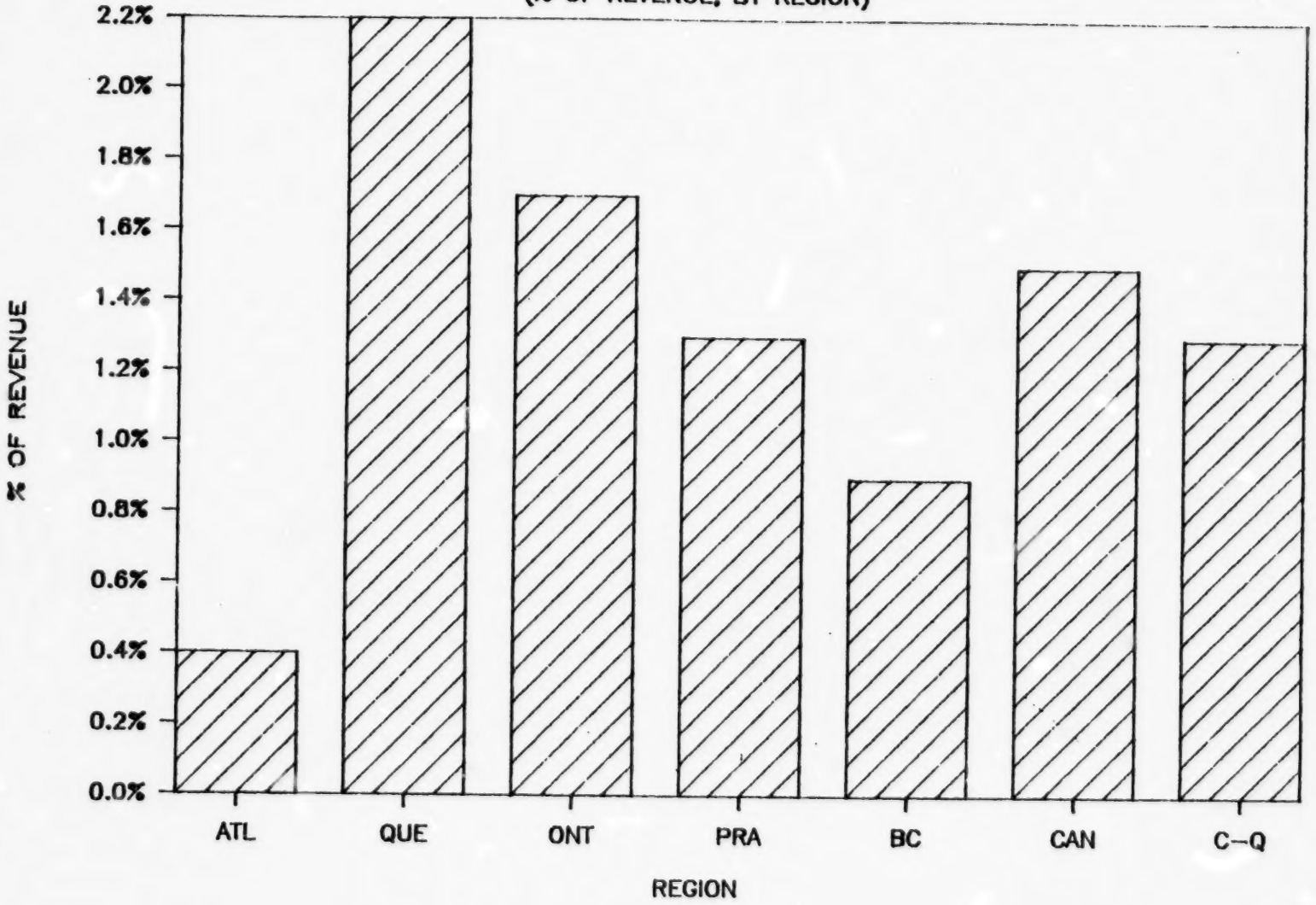


Exhibit 3

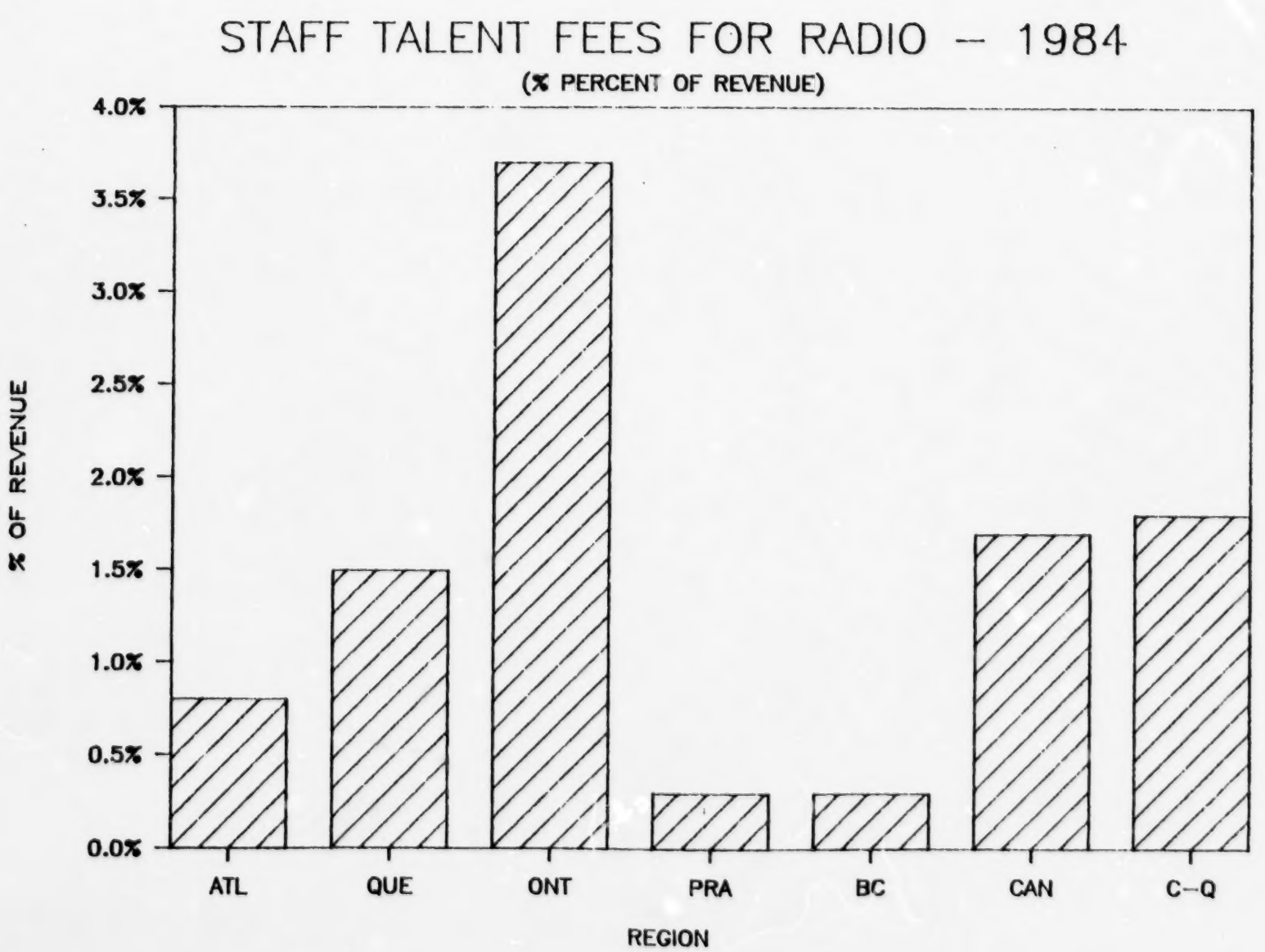

STAFF TALENT FEES FOR RADIO -- 1984
(% PERCENT OF REVENUE)
% OF REVENUE
4.0%
3.5%
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0.0%
ATL
QUE
ONT
PRA
BC
CAN
C-Q
REGION

Table 26

KEY FINANCIAL INDICATORS FOR THE CANADIAN PRIVATE RADIO INDUSTRY - 1984

(MILLIONS OF DOLLARS)

	ATLANTIC PROVINCES	QUEBEC	ONTARIO	PRAIRIES	BRIT. COL.	CANADA	CANADA (EXC. QUE.)
* REVENUE	47.6	125.5	183.2	127.9	74.5	558.7	433.2
* CREATIVE TALENT							
- STAFF	0.4	1.9	6.8	0.4	0.2	9.7	7.8
- NON-STAFF	0.2	2.7	3.1	1.7	0.7	8.4	5.7
* PROFIT BEF. TAX	2.3	3.9	5.4	7.8	6.0	25.4	21.5

(PERCENTAGE OF REVENUE)

	ATLANTIC PROVINCES	QUEBEC	ONTARIO	PRAIRIES	BRIT. COL.	CANADA	CANADA (EXC. QUE.)
* REVENUE	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
* CREATIVE TALENT							
- STAFF	0.8%	1.5%	3.7%	0.3%	0.3%	1.7%	1.8%
- NON-STAFF	0.4%	2.2%	1.7%	1.3%	0.9%	1.5%	1.3%
* PROFIT BEF. TAX	4.8%	3.1%	2.9%	6.1%	8.1%	4.5%	5.0%

- SOURCE: COMPILED FROM STATISTICS CANADA DATA.

D. ADVERTISING REVENUES AND PROFITABILITY

1. The Sources and Measures of Profitability

In our economic system, profitability is a residual after all operating and financing expenses are deducted from revenues. Profitability is both a result and a yardstick for a variety of factors:

- barriers to entry in the field (licensing, etc.);
- degree of competition within the industry (number of outlets, etc.);
- degree of competition from other sources (print, etc.);
- quality of product and service (programs, etc.);
- general economic conditions and market demand (GNP, retail sales, etc.);
- ability to deal with regulatory constraints and policies (formats, content, etc.);
- bargaining position with clients (advertisers, etc.);
- bargaining position with suppliers (employees, artists, etc.);
- quality of management;
- others.

Many of these factors have already been discussed in prior sections, as they apply to the radio and television broadcasting industry in Quebec. Pretending to identify precisely which of these factors determines profitability at any given time and in which proportion is somewhat presumptuous. Conversely, pretending to assess precisely the impact on profitability by a modification in any factor is also quite presumptuous.

Nevertheless some general indications on profitability impacts can be drawn from a review of principal determinants.

Profitability can be expressed in a variety of ways, each one representing a slightly different aspect of the overall performance. Among the major indicators of profitability are:

- return on assets: profit as a percentage of total company assets. This indicates how well the operations are run, and how efficiently assets are used.

- return on equity: profit as a percent of company equity. This indicates both efficiency in operations and the effects of the financial structure.

- total return to shareholders: dividends received by shareholders plus capital appreciation as a percentage of their initial investment. This measures include efficiency of operations, effects of the financial structure and market appreciation of the share or property.

These first three measures are very important as they determine where funds should be invested or withdrawn. Generally speaking, there measures should be comparable between industrials and indicate their relative health.

- return on sales: profit as a percentage of total company revenues. This measure provides an indication of the margins available to reward capital. These margins vary considerably between industries, without reflecting on their financial health. Margins will generally vary from around 1.5 percent in food retailing to 5-10 percent in manufacturing to more in certain fields, including broadcasting.

All the four indicators described above can be expressed before or after income taxes. Again, these two alternatives present slightly different aspects of the same reality. The after tax alternative factors in the ability to take advantage of various government tax structures and incentives to maximize net return.

The data available from Statistics Canada does not permit to use the first three indicators for the radio and the television industries separately. We will therefore use the fourth one. To avoid the complexities of the tax aspects, we will use the following measure: return on sales before income taxes.

As indicated above, selecting this indicator precludes from drawing comparisons with other industrial sectors. But applied on a consistent basis, this indicator allows for comparisons within an industrial sector over time and between company groups.

2. Television Advertising Revenues and Profitability

In Quebec privately-owned television stations used to show the highest profitability of all Canadian regions at around 29 percent, up to 1979. But, as seen in Table 27, the financial performance of Quebec based stations has moved down closer to the national average of around 18 percent, starting in 1980. Overall the Canadian performance has remained stable throughout the years, despite fluctuations at the regional level.

Total interest charges for Quebec stations jumped from $3.3 million in 1979 to $16.6 million in 1983; profitability would have been about 6 percentage points higher if not for these interest charges. A good part of the deterioration of the financial performance in Quebec could probably be attributed to the high financing charges incurred in transactions involving stations in Quebec City and Montreal.

Generally in Canada, the smallest TV stations consistently underperform the national profitability averages, by 10 to 19 percentage points (Table 28). In 1984, the TV stations included in this group had individual revenues below $1.6 million. These stations are located in the smaller and weaker markets ("C" or less for Quebec). For the larger revenue groups, no clear profitability trend exists over the years, especially since the statistical definition of these revenue groups evolves over time.

Over the years, the large television stations in Quebec and the rest of Canada have shown strong ability to weather all adverse situations (economic recession, cost increases, tighter regulations on Canadian content, a few new licenses, etc.). The demonstrated ability of these large TV stations to maintain strong growth in advertising revenues suggests that some further adjustments to the Canadian broadcasting system could be handled as well. The precise nature and benefits of these adjustments would have to be examined in light of their potential drawbacks.

Table 27

Profitability of the privately owned television broadcasting industry, by area, 1976-1984

	1976	1977	1978	1979	1980	1981	1982	1983	1984
Atlantic provinces	18.1%	19.6%	26.3%	18.9%	33.7%	29.8%	28.6%	18.7%	18.4%
Quebec	29.3%	23.9%	29.7%	29.0%	23.5%	26.3%	22.9%	18.0%	16.4%
Ontario	18.7%	17.1%	15.6%	18.1%	13.3%	16.4%	15.3%	17.6%	17.2%
Man./Sask.	16.3%	19.5%	19.5%	16.6%	16.3%	22.4%	19.9%	18.3%	21.9%
Alberta	17.6%	19.0%	20.0%	19.2%	24.5%	18.9%	23.6%	20.9%	27.1%
Brit. Col. and Yukon	20.7%	8.7%	10.7%	11.7%	9.4%	12.8%	13.0%	12.7%	14.0%
Total	21.3%	18.5%	20.0%	20.3%	18.3%	19.6%	19.2%	17.8%	18.5%

- NOTES: - PROFITABILITY IS DEFINED AS PROFITS BEFORE INCOME TAXES AS A PERCENT OF TOTAL REVENUE.
  - [ ] INDICATES THE HIGHEST PERFORMANCE.
- SOURCE: STATISTICS CANADA, CATALOGUE 56-205

Table 28

Profitability of the privately owned television broadcasting industry, by revenue group, 1976-1984

	1984 Revenue Group	1976	1977	1978	1979	1980	1981	1982	1983	1984
Group 1	($13.25 million and over)	24.7%	22.0%	21.9%	22.2%	19.6%	21.5%	20.9%	17.8%	18.4%
Group 2	($4.10 - $13.25 million)	12.8%	10.3%	16.3%	14.8%	14.0%	13.8%	14.5%	20.6%	22.1%
Group 3	($1.59 - $4.10 million)	20.2%	18.4%	17.0%	22.5%	23.0%	20.9%	18.3%	16.1%	13.8%
Group 4	($1.59 million and under)	7.2%	2.4%	12.1%	3.2%	0.3%	2.6%	9.2%	-1.1%	9.0%
TOTAL		21.3%	18.5%	20.0%	20.3%	18.3%	19.6%	19.2%	17.8%	18.5%

* NOTE: - REVENUE GROUPS VARY EVERY YEAR.

- PROFITABILITY IS DEFINED AS PROFITS BEFORE INCOME TAXES AS A PERCENT OF TOTAL REVENUE.

* SOURCE: STATISTICS CANADA, CATALOGUE 56-205

3. Radio Advertising Revenues and Profitability

In Quebec, privately owned radio stations have consistently been the lowest or second lowest performers of all Canadian regions, as seen in Table 29. In the nine year period going from 1976 to 1984, Quebec stations had the worst profitability in 5 cases, and the second worst in 4 cases.

Throughout Canada, the profitability of radio stations has deteriorated over the years, decreasing gradually from 14.8 percent in 1976 to 4.5 percent in 1984. Radio stations have faced a profit squeeze, being unable to increase their advertising revenues as fast as their operating costs. In their quest for advertising revenues, radio stations face strong competition from a wide array of other media: numerous local radio stations in major markets, specialty magazines, newspapers, flyers and weeklies in smaller markets. Regional weeklies (available either an a subscription basis or distributed free-of-charge) are particularly strong in Quebec.

The financial performance of Quebec radio stations has deteriorated less than in other regions: the relative performance gap is smaller than before, even if overall performance is still unsatisfactory.

Generally in Canada, radio station profitability is loosely tied to revenue level (see Table 30). Stations with 1984 annual revenues exceeding $3 million (generally the largest stations in the largest markets) show the best profitability. Stations with 1984 annual revenues below $1 million (small stations and/or small markets) show significant losses.

Table 29

Profitability of the privately owned radio broadcasting industry, by area, 1976-1984

	1976	1977	1978	1979	1980	1981	1982	1983	1984
Atlantic provinces	11.8%	8.8%	6.6%	[6.2%]	[7.4%]	8.0%	4.1%	4.1%	5.0%
Quebec	[9.1%]	[6.3%]	[5.8%]	10.2%	8.1%	[3.4%]	[-3.0%]	0.7%	3.1%
Ontario	17.4%	16.3%	14.9%	10.8%	9.1%	7.6%	0.6%	2.2%	[3.0%]
Manitoba	16.2%	10.7%	11.3%	10.4%	9.7%	7.8%	-1.5%	[0.5%]	3.7%
Saskatchewan	17.1%	12.9%	17.0%	14.4%	12.6%	10.7%	11.6%	2.7%	6.5%
Alberta	21.6%	20.2%	18.6%	18.6%	22.8%	19.6%	23.5%	9.2%	6.7%
Brit. Col. and Yukon	12.4%	13.2%	12.3%	15.0%	14.4%	8.2%	18.1%	5.1%	8.0%
Total	14.8%	13.2%	12.3%	12.0%	11.5%	8.7%	6.4%	3.4%	4.5%

* NOTES: - PROFITABILITY IS DEFINED AS PROFITS BEFORE INCOME TAXES AS A PERCENT OF TOTAL REVENUE.
- [ ] INDICATES THE LOWEST PERFORMANCE.

* SOURCE: STATISTICS CANADA, CATALOGUE 56-205

Table 30

Profitability of the privately owned radio broadcasting industry, by revenue group, 1976-1984

	1984 Revenue Group	1976	1977	1978	1979	1980	1981	1982	1983	1984
Group 1	($3.12 million and under)	24.4%	22.1%	21.3%	23.0%	21.9%	18.8%	18.5%	15.1%	13.5%
Group 2	($1.79 - $3.12 million)	15.3%	12.3%	12.8%	9.6%	9.9%	10.6%	8.2%	6.4%	4.0%
Group 3	($1.34 - $1.79 million)	9.4%	8.8%	7.8%	8.5%	6.2%	5.0%	4.6%	3.1%	6.1%
Group 4	($1.07 - $1.34 million)	10.5%	8.4%	7.3%	6.6%	10.3%	5.2%	1.3%	-1.5%	-5.0%
Group 5	($787,000 - $1.07 million)	6.0%	5.1%	8.1%	3.4%	3.3%	2.7%	-10.1%	-10.0%	0.9%
Group 6	($632,000 - $787,000)	2.1%	6.3%	-2.9%	0.3%	6.6%	-3.7%	-5.5%	-11.6%	-6.5%
Group 7	($456,000 - $632,000)	2.2%	1.4%	-3.8%	-5.5%	-4.0%	-1.9%	-10.2%	-7.5%	-17.7%
Group 8	($333,000 - $456,000)	-6.0%	-0.7%	-0.5%	-1.9%	-10.3%	-18.7%	-16.3%	-28.1%	-10.9%
Group 9	($192,000 - $333,000)	-2.9%	-16.4%	-12.5%	-32.8%	-29.2%	-21.5%	-26.0%	-17.1%	-11.7%
Group 10	($192,000 and under)	-7.3%	-25.5%	-13.1%	-1.5%	-34.7%	-59.5%	-87.5%	-28.6%	-9.7%
TOTAL		14.8%	13.2%	12.3%	12.0%	11.5%	8.7%	6.4%	3.4%	4.5%

* NOTE: - REVENUE GROUPS VARY EVERY YEAR.

- PROFITABILITY IS DEFINED AS PROFITS BEFORE INCOME TAXES AS A PERCENT OF TOTAL REVENUE.

* SOURCE: STATISTICS CANADA, CATALOGUE 56-205

All revenue groups have seen their financial performance deteriorate over the years, so that more groups have become unprofitable. Whereas 3 out 10 groups were unprofitable in 1976, the proportion of money losers reached 7 out of 10 in 1983. Groups of smaller stations have been consistently unprofitable, even though the statistical definition of these revenue groups evolves over time.

In light of the financial difficulties facing smaller stations throughout Canada and many stations in Quebec, it is doubtful that they could withstand a further drain on their revenues, or incur significantly higher costs. Any new policies should assist in improving the financial viability of existing radio stations, in order to strengthen the broadcasting system as a whole. These policies could include the following: restrictions on the number of licenses in any region, loosening of format restrictions, affiliation and networking, etc.

IV. CONCLUSION

This report has reviewed the factors affecting the advertising revenues of the broadcasting system in Quebec. Three sources of information were used in analyzing the industry: publicly available statistics, interviews with industry participants and prior experience of the consultants.

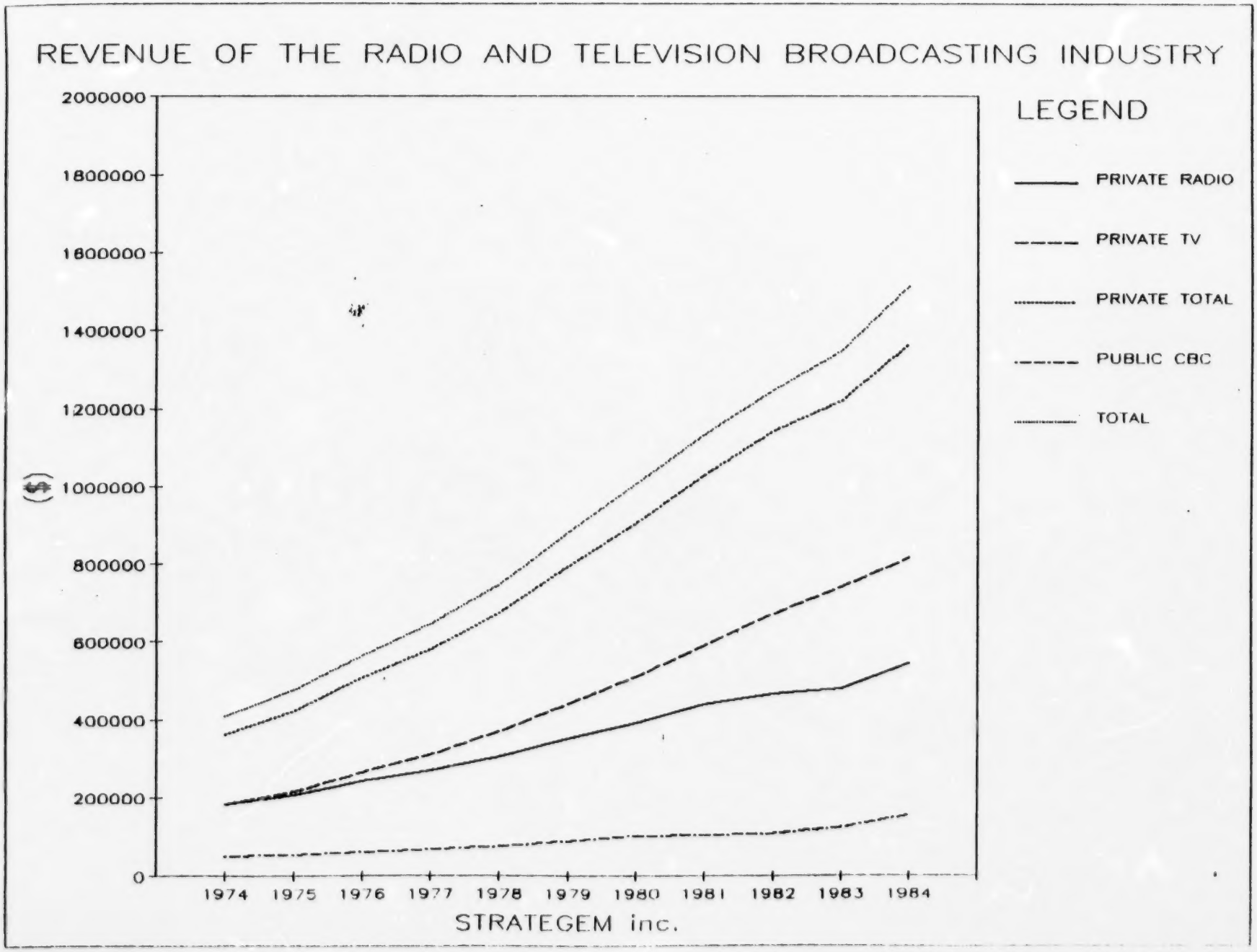
APPENDIX 1A

REVENUE OF THE RADIO AND TELEVISION BROADCASTING INDUSTRY
1974 TO 1984, (K$)

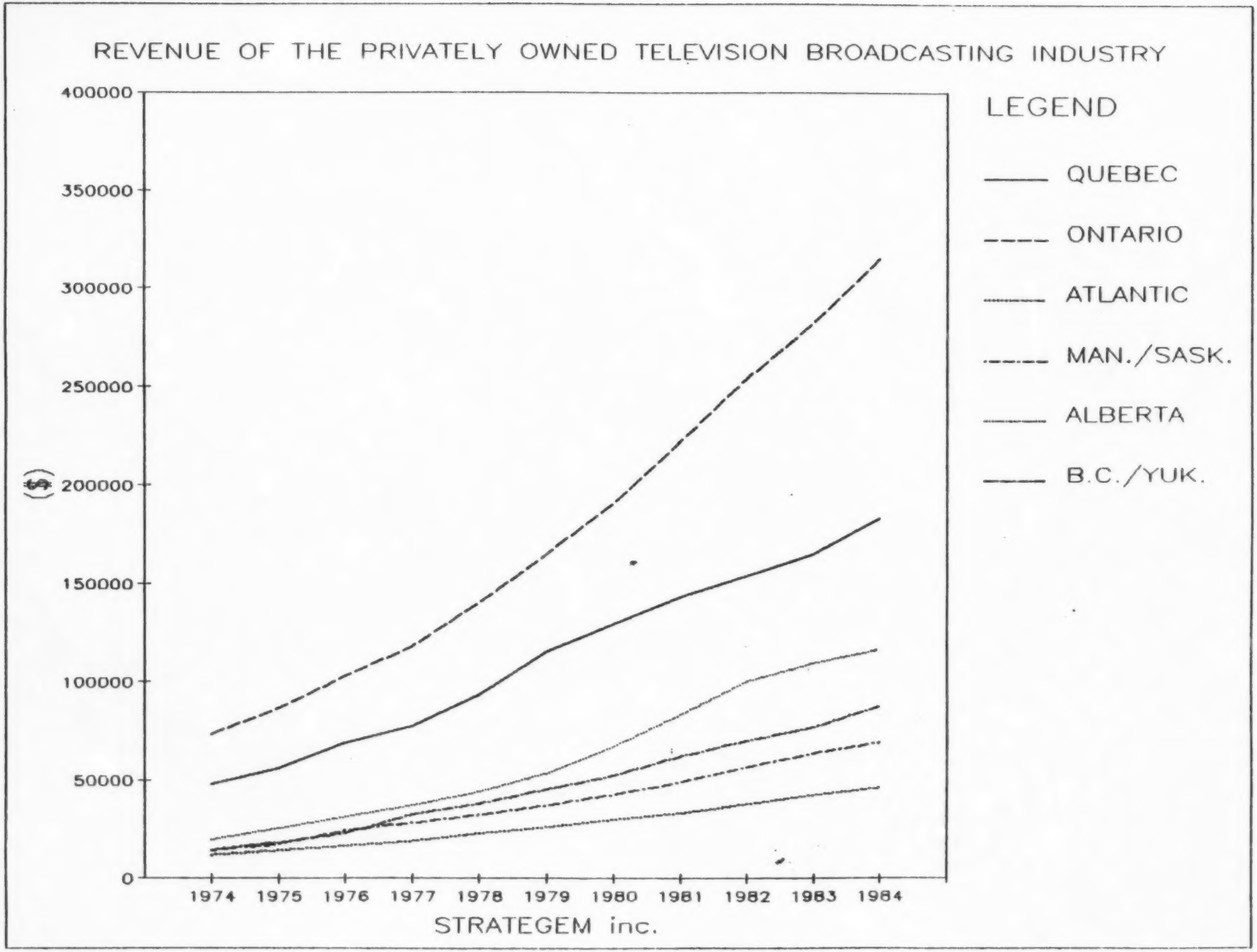
	PRIVATE STATIONS			PUBLIC	TOTAL
	RADIO	TV	TOTAL	CBC	
1974 LOCAL:	127476	51366	178842	6496	185338
NATIONAL:	52356	128086	180442	42264	222706
TOTAL:	179832	179452	359284	48760	408044
1975 LOCAL:	147334	63285	210619	7096	217715
NATIONAL:	58332	151511	209843	45752	255595
TOTAL:	205666	214796	420462	52848	473310
1976 LOCAL:	173186	76125	249311	8837	258148
NATIONAL:	68273	188094	256367	49883	306250
TOTAL:	241459	264219	505678	58720	564398
1977 LOCAL:	195874	88859	284733	8226	292959
NATIONAL:	72867	221441	294308	57377	351685
TOTAL:	268741	310300	579041	65603	644644
1978 LOCAL:	222053	103387	325440	10114	335554
NATIONAL:	82815	265028	347843	63833	411676
TOTAL:	304868	368415	673283	73947	747230
1979 LOCAL:	256046	121423	377469	10511	387980
NATIONAL:	95483	318738	414221	76637	490858
TOTAL:	351529	440161	791690	87148	878838
1980 LOCAL:	286685	140924	427609	10961	438570
NATIONAL:	104772	369035	473807	89942	563749
TOTAL:	391457	509959	901416	100903	1002319
1981 LOCAL:	322871	157643	480514	11687	492201
NATIONAL:	115256	432168	547424	90631	638055
TOTAL:	438127	589811	1027938	102318	1130256
1982 LOCAL:	346921	166765	513686	13103	526789
NATIONAL:	119009	504068	623077	93886	716963
TOTAL:	465930	670833	1136763	106989	1243752
1983 LOCAL:	352723	173939	526662	11634	538296
NATIONAL:	126765	566668	693433	112041	805474
TOTAL:	479488	740607	1220095	123675	1343770
1984 LOCAL:	398674	194344	593018	13614	606632
NATIONAL:	145645	622268	767913	140482	908395
TOTAL:	544319	816612	1360931	154096	1515027

Source: Statistics Canada, 56-204, 1974 to 1984

APPENDIX 1B


REVENUE OF THE RADIO AND TELEVISION BROADCASTING INDUSTRY
2000000
1800000
1600000
1400000
1200000
$
1000000
800000
600000
400000
200000
0
1974
1975
1976
1977
1978
1979
1980
1981
1982
1983
1984
LEGEND
PRIVATE RADIO
PRIVATE TV
PRIVATE TOTAL
PUBLIC CBC
TOTAL
STRATEGEM inc.

APPENDIX 2B


REVENUE OF THE PRIVATELY OWNED TELEVISION BROADCASTING INDUSTRY
400000
350000
300000
250000
200000
150000
100000
50000
0
1974
1975
1976
1977
1978
1979
1980
1981
1982
1983
1984
STRATEGEM inc.
LEGEND
QUEBEC
ONTARIO
ATLANTIC
MAN./SASK.
ALBERTA
B.C./YUK.

APPENDIX 2A

REVENUE OF THE PRIVATELY OWNED TELEVISION BROADCASTING INDUSTRY BY AREA, 1974 TO 1984, (K$)

		QUEBEC	ONTARIO	ATLANT.	MAN/SAS	ALBERTA	B.C.	CANADA	CAN-QUE
1974	LOC.:	16952	12446	4687	5572	7828	3880	51365	34413
	NAT.:	30475	60613	6791	8432	11426	10348	128085	97610
	TOT.:	47427	73059	11478	14004	19254	14228	179450	132023
1975	LOC.:	21167	13454	5538	7166	11141	4819	63285	42118
	NAT.:	34703	72666	7673	9923	13678	12865	151508	116805
	TOT.:	55870	86120	13211	17089	24819	17684	214793	158923
1976	LOC.:	26430	12735	6469	9955	14070	6466	76125	49695
	NAT.:	42143	90060	9867	13872	16296	15858	188096	145953
	TOT.:	68573	102795	16336	23827	30366	22324	264221	195648
1977	LOC.:	29949	13198	7029	11622	17105	9956	88859	58910
	NAT.:	47014	104695	11310	16275	19717	22429	221440	174426
	TOT.:	76963	117893	18339	27897	36822	32385	310299	233336
1978	LOC.:	35232	15127	7965	13469	19722	11871	103386	68154
	NAT.:	57743	124994	14349	18537	23674	25730	265027	207284
	TOT.:	92975	140121	22314	32006	43396	37601	368413	275438
1979	LOC.:	41243	17615	9352	14587	22581	16046	121424	80181
	NAT.:	73887	147000	16202	21963	30789	28895	318736	244849
	TOT.:	115130	164615	25554	36550	53370	44941	440160	325030
1980	LOC.:	45453	22723	10678	16030	24895	19144	140923	95470
	NAT.:	83386	167727	18820	26288	39962	32853	369036	285650
	TOT.:	128839	190450	29498	42318	64857	51997	509959	381120
1981	LOC.:	49894	26005	11071	17219	31318	22136	157643	107749
	NAT.:	92835	195971	21740	31084	50743	39794	432167	339332
	TOT.:	142729	221976	32811	48303	82061	61930	589810	447081
1982	LOC.:	52290	29691	11672	19428	34688	18995	166764	114474
	NAT.:	101394	224450	25381	36937	65353	50552	504067	402673
	TOT.:	153684	254141	37053	56365	100041	69547	670831	517147
1983	LOC.:	54402	32756	12536	19719	35537	18909	173939	119537
	NAT.:	110541	249473	29539	43545	73927	57642	564667	454126
	TOT.:	164943	282229	42075	63264	109464	76631	738606	573663
1984	LOC.:	57582	39240	14333	21803	39128	22257	194343	136761
	NAT.:	125517	275647	31225	47306	77099	65474	622268	496751
	TOT.:	183099	314887	45558	69109	116227	87731	816611	633512

Source: Statistics Canada, Catalog 56-204, 1974 to 1984

APPENDIX 2C

ADVERTISING EXPENDITURES PER CAPITA IN TELEVISION BROADCASTING BY AREA, 1974 to 1984, ($)

	QUEBEC	ONTARIO	ATLANT.	MAN/SAS	ALBERTA	B.C.	CANADA	CAN-QUE
1974	7.75	9.07	5.41	7.34	11.18	5.84	8.02	8.13
1975	9.04	10.54	6.14	8.90	13.96	7.08	9.46	9.62
1976	11.00	12.44	7.49	12.26	16.52	8.82	11.49	11.67
1977	12.25	14.11	8.35	14.22	19.25	12.63	13.33	13.73
1978	14.75	16.60	10.11	16.20	21.88	14.42	15.67	16.00
1979	18.16	19.36	11.52	18.47	26.00	16.92	18.54	18.67
1980	20.18	22.22	13.23	21.33	31.23	19.03	21.21	21.58
1981	22.17	25.74	14.69	24.21	36.68	22.02	24.23	24.97
1982	23.72	29.16	16.53	27.99	43.14	24.30	27.23	28.49
1983	25.34	31.98	18.54	30.98	46.64	26.50	29.68	31.22
1984	27.99	35.18	19.89	33.43	49.65	29.87	32.50	34.09

Source: Statistics Canada, Catalog 56-204, 1974 to 1984
Compilation Strategem

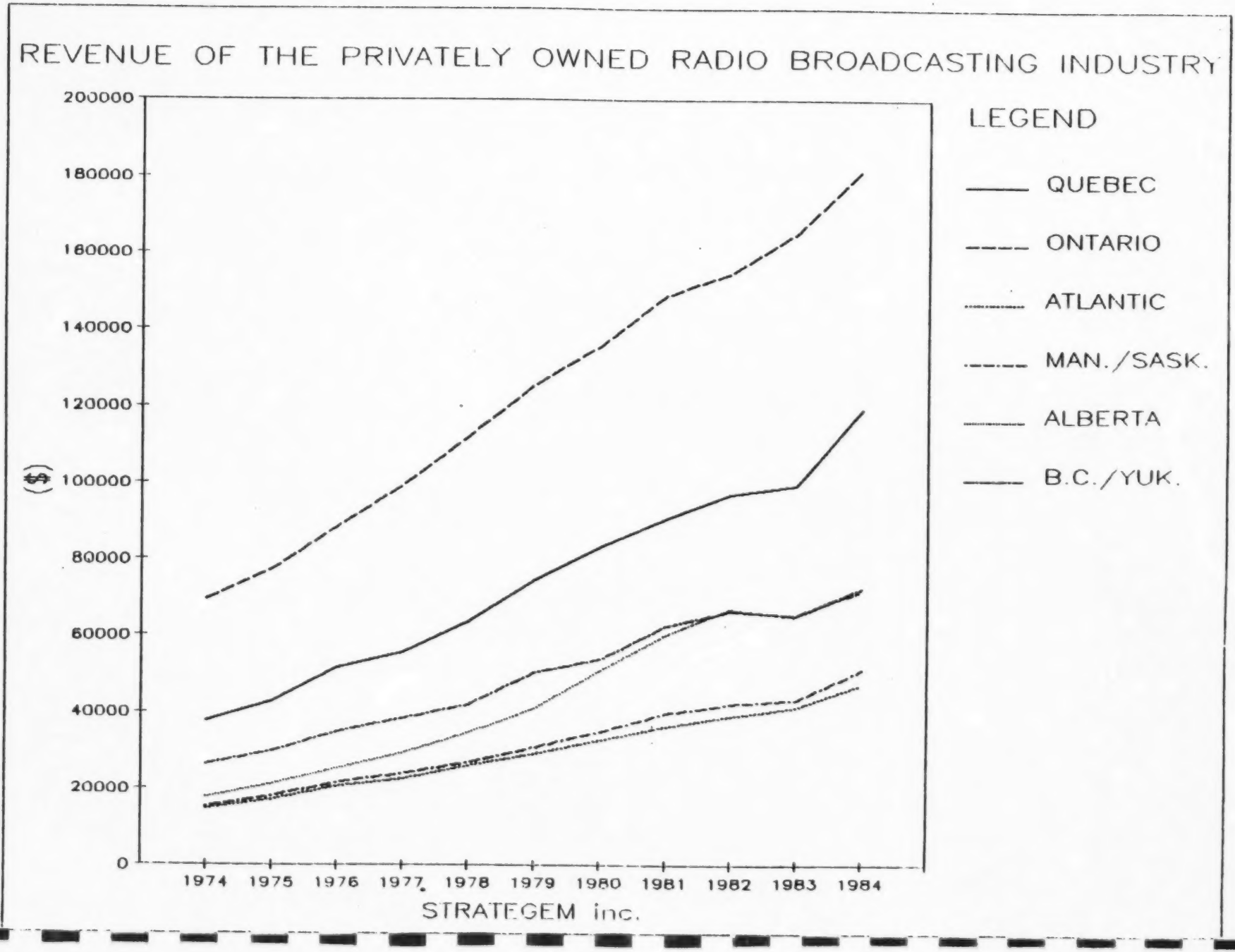
APPENDIX 3A

REVENUE OF THE PRIVATELY OWNED RADIO BROADCASTING INDUSTRY BY AREA, 1974 TO 1984, (K$)

		QUEBEC	ONTARIO	ATLANT.	MAN/SAS	ALBERTA	B.C.	CANADA	CAN-QUE
1974	LOC.:	25509	46087	11454	11152	12952	20323	127477	101968
	NAT.:	11843	23214	3003	3984	4466	5840	52356	40513
	TOT.:	37352	69301	14457	15136	17418	26164	179833	142481
1975	LOC.:	29581	51926	13487	13509	15791	22839	147133	117552
	NAT.:	12952	25374	3641	4428	5156	6781	58332	45380
	TOT.:	42533	77300	17128	17937	20947	29620	205465	162932
1976	LOC.:	35799	59478	16055	16355	18907	26593	173187	137388
	NAT.:	15564	28887	4100	5087	6487	8148	68273	52709
	TOT.:	51363	88365	20155	21442	25394	34741	241460	190097
1977	LOC.:	39005	68043	18156	18929	22812	28930	195875	156870
	NAT.:	16601	31227	4122	4959	6655	9302	72866	56265
	TOT.:	55606	99270	22278	23888	29467	38232	268741	213135
1978	LOC.:	44056	77253	20824	21568	27218	31135	222054	177998
	NAT.:	19605	34761	4753	5282	7663	10751	82815	63210
	TOT.:	63661	112014	25577	26850	34881	41886	304869	241208
1979	LOC.:	52838	85771	23904	24292	31378	37864	256047	203209
	NAT.:	21739	39886	5166	6421	9746	12525	95483	73744
	TOT.:	74577	125657	29070	30713	41124	50389	351530	276953
1980	LOC.:	57634	94372	26917	27228	38896	41637	286684	229050
	NAT.:	25613	41543	5653	7516	12412	12033	104770	79157
	TOT.:	83247	135915	32571	34744	51308	53670	391455	308208
1981	LOC.:	62448	104155	30079	31599	45974	48615	322870	260422
	NAT.:	28109	44757	6265	7960	14416	13748	115255	87146
	TOT.:	90557	148912	36344	39559	60390	62363	438125	347568
1982	LOC.:	66897	108489	32683	33941	50907	54004	346921	280024
	NAT.:	30157	46368	6211	8100	15839	12335	119010	88853
	TOT.:	97054	154857	38894	42041	66746	66339	465931	368877
1983	LOC.:	68638	114782	35099	34879	40640	50683	352721	284083
	NAT.:	30637	50765	6018	8413	16240	14692	126765	96128
	TOT.:	99275	165547	41117	43292	64880	65375	479486	380211
1984	LOC.:	80960	126704	40509	40543	53602	56356	398674	317714
	NAT.:	38364	55456	6742	10567	18378	16138	145645	107281
	TOT.:	119324	182160	47251	51110	71980	72494	544319	424995

Source: Statistics Canada, Catalog 56-204, 1974 to 1984

APPENDIX 3B


REVENUE OF THE PRIVATELY OWNED RADIO BROADCASTING INDUSTRY
200000
180000
160000
140000
120000
100000
80000
60000
40000
20000
0
($)
1974
1975
1976
1977
1978
1979
1980
1981
1982
1983
1984
LEGEND
QUEBEC
ONTARIO
ATLANTIC
MAN./SASK.
ALBERTA
B.C./YUK.
STRATEGEM inc.

APPENDIX 3C

ADVERTISING EXPENDITURES PER CAPITA IN RADIO BROADCASTING BY AREA, 1974 TO 1984, ($)

	QUEBEC	ONTARIO	ATLANT.	MAN/SAS	ALBERTA	B.C.	CANADA	CAN-QUE
1974	6.10	8.60	6.81	7.94	10.11	10.74	8.04	8.77
1975	6.88	9.46	7.96	9.34	11.78	11.87	9.05	9.86
1976	8.24	10.69	9.24	11.04	13.82	13.73	10.50	11.34
1977	8.85	11.88	10.14	12.18	15.40	14.91	11.55	12.55
1978	10.10	13.27	11.58	13.59	17.59	16.06	12.96	14.01
1979	11.76	14.78	13.10	15.52	20.03	18.97	14.80	15.91
1980	13.04	15.86	14.61	17.51	23.96	19.64	16.28	17.46
1981	14.07	17.27	16.27	19.83	27.00	22.17	18.00	19.41
1982	14.98	17.77	17.35	20.87	28.78	23.18	18.92	20.32
1983	15.25	18.76	18.11	21.20	27.64	22.61	19.27	20.69
1984	18.24	20.35	20.62	24.73	30.75	24.68	21.67	22.87

Source: Statistics Canada, Catalog 56-204, 1974 to 1984
Compilation Strategem

APPENDIX 4

POPULATION OF CANADA, AS OF JUNE 1, 1974 TO 1984, (000)

	QUEBEC	ONTARIO	ATLANT.	MAN/SAS	ALBERTA	B.C.	CANADA	CAN-QUE
1974	6123	8054	2122	1907	1722	2437	22364	16241
1975	6179	8172	2151	1921	1778	2496	22697	16518
1976	6234	8265	2182	1943	1838	2531	22993	16759
1977	6284	8353	2197	1962	1913	2564	23273	16989
1978	6302	8440	2208	1976	1983	2608	23517	17215
1979	6339	8501	2219	1979	2053	2656	23747	17408
1980	6386	8570	2229	1984	2141	2733	24043	17657
1981	6438	8625	2234	1995	2237	2813	24342	17904
1982	6481	8716	2242	2014	2319	2862	24632	18152
1983	6510	8825	2270	2042	2347	2892	24885	18375
1984	6542	8950	2291	2067	2341	2937	25124	18582

Source: Statistics Canada

APPENDIX 5

RADIO LISTENING TRENDS
AVERAGE HOURS PER CAPITA
FALL SURVEYS 1981-1985

	YEAR	QUEBEC	CANADA	U.S.A.*
ALL PERSONS 7+	1981	19,5	18,0	23,2
	1982	20,2	18,4	23,9
	1983	20,6	18,7	22,4
	1984	20,5	18,7	21,9
	1985	20,1	19,0	21,7
WOMEN 18+	1981	22,9	21,5	
	1982	23,5	22,1	
	1983	24,7	22,0	
	1984	24,2	21,8	
	1985	23,5	22,0	
MEN 18+	1981	19,3	18,3	
	1982	20,0	18,5	
	1983	20,5	19,1	
	1984	21,0	19,2	
	1985	20,5	19,4	

SOURCE: BBM
RADIO BUREAU (RAB, NEW YORK)

*ALL PERSONS 12+

APPENDIX 6

TV VIEWING TRENDS
AVERAGE HOURS PER CAPITA
FALL SURVEYS 1981-85

		QUEBEC	CANADA	U.S.A. *
ALL PERSONS 2+	1981	24,9	23,5	47,3
	1982	24,5	23,7	47,6
	1983	23,5	23,8	49,2
	1984	23,9	23,6	49,9
	1985	25,4	24,0	49,5
WOMEN 18+	1981	28,6	28,5	
	1982	27,8	26,7	
	1983	27,1	26,8	
	1984	27,4	26,9	
	1985	29,1	27,1	
MEN 18+	1981	24,1	23,0	
	1982	23,6	23,3	
	1983	23,1	23,5	
	1984	22,7	22,9	
	1985	23,3	22,7	

SOURCE: BBM
TVB (NEW YORK)

* THIS STATISTIC IS PER HOUSEHOLD INSTEAD OF PER CAPITA. 1985 IS AN AVERAGE OF JANUARY TO NOVEMBER 1985.

- High cost of operating radio stations in Quebec: unions, programming. These higher costs have an effect on selling prices of radio, when compared with English Canada.

- Too many licenses were granted by the CRTC. In many markets this has a negative effect on prices.

- Regional radio stations are threatened by the increased listenership of Montreal and Quebec FM by stations.

- AM radio is facing tough times with an aging clientele. Only the AM stations with "strong services" should survive.

FM radio is more ready to face the 1990's than AM radio.

1.2 RADIO-QUEBEC

- The advertising and broadcasting community find "interesting" but "marginal" the approval by the CRTC for RQ to sell advertising.

- Both communities question the educational mandate of RQ.

- Advertisers will continue to consider Radio-Québec as a complement to other TV stations, efficient for prestige clients and corporate advertising.

- The arrival of RQ in the market shall not affect revenues of others.

1.3 DEREGULATION

- Deregulation could increase inventory in radio and TV time but what it would generate in additional revenues, it would tend to lose in audience. As more commercials would be aired, people would tend to tune out. Therefore, nobody in the business wishes it now, nor do they believe in it.

- Agencies think private broadcasters would be too greedy.

- Control of advertising time must not be left to individuals, otherwise it could lead to a "free for all".

- Efficiency of commercials would also drop. The arrival of 10 and 15 second commercials is a serious threat for advertisers.

- Removal of time restrictions is not wanted; however there should be a free market for radio formats.

- Most probably, broadcasters would be happy not to comply with the different regulations of the CRTC.

- Advertisers tend to think that a "format free" radio market would insure that each radio station would find its own niche. The market would decide.

1.4 CBC: ITS FUTURE

Most of the persons that were interviewed think that:

- CBC should increase its advertising revenues by increasing their rates to be more competitive. Speaking as tax payers and Canadian citizens, they can't see how the government could invest more money in it.

- Increasing available commercial time on CBC would bring in new revenues, increase the total inventory and increase competition in the industry. It would also contribute to increase the quality level of programs.

- Some respondents are considering CBC as unfair competition, with the large resources they can count on.

- Some believe that CBC shouldn't broadcast professionnal sports. CBC should leave it to private broadcasters as it is "commercial property".

- A question has been raised concerning CBC and Radio-Quebec having the same mission and on the economic and social pertinence of two French public networks.

1.5 ADVERTISING ON CABLE

- On this issue, respondents are almost unanimous in thinking that advertising on cable would increase the diversity and the specificity of the broadcasting. In this case, they prefer the term "narrow casting".

- Respondents also believe that cable advertising will take time to take OFF.

- Some are wondering if the Quebec market is big enough to make it profitable.

- Agencies and advertisers wish it on the basis that it will not affect others as "clients like to set aside some money for media opportunities".

1.6 ADVERTISING TO CHILDREN

Respondents are ambivalent in answering this particular issue. They have to think in a business or a social way.

- From a business point of view, they agree that Quebec broadcasting has lost revenues since the ban. Advertising money has been lost as well as production.

- Children programs are probably less interesting than before and quality of programming has decreased.

- As no advertising money can be generated for broadcasters with this type of programming, total hours of children's programming have decreased.

- From a social point of view, some of them agree on the principle of the influence of advertising on children and find that the ban is good as a social choice.

- However, the regulation does not prevent advertising to children from other sources: channels, magazines, newspapers, catalogs. Because of that, some think that the regulation is not really effective and this area should not be regulated.

- Some others think that the regulation is too restrictive and should only be controlling the quality of the commercials. There is a way of producing good advertising for children.

- Overall, advertisers, of course, would welcome a "less restrictive" regulation.

1.7 ON CANADIAN CONTENT

1.7.1 THE PRINCIPLE

- On the basic principle, most of the respondents agree that we should encourage the Canadian content in the broadcasting industry in order to stimulate that sector of activity and to keep our Canadian identity.

- It is more difficult to agree with this in the radio industry. In fact, the French radio industry has to cope with French content constraints as well as Canadian content constraints, when a large proportion of the "listeners" demand American and/or English pop music.

1.7.2. CBC: 100% CANADIAN CONTENT

The hypothesis of CBC broadcasting 100% Canadian content has been tested among our respondents, to see if it would be a good way of promoting the Canadian industry.

Their reactions was that it would help the Canadian industry, but it would probably not be desirable: :

We may be Canadians but we are also North Americans and we should not isolate ourselves from the rest of the world. What we see on television should be a reflection of the reality, including a North American perspective.

It would not be desirable for CBC because it would become a "ghetto" which would be a handicap.

CBC is already at a high level of Canadian content but 100% would be too much.

The private broadcasters might take the occasion to broadcast more American content.

If this 100% Canadian content should become effective, French CBC would be less affected than the English CBC. In fact, as of December 1985, 9 programs out of 10 were Canadian content on the French network. However, the English network would experience more problems.

1.7.3 TAX ADVANTAGE

The other hypothesis to be tested was to give a tax advantage to advertisers who would invest their money in Canadian content programs.

- Principle is good but the practical side is complex. These types of regulations ask for a high level of control. Agencies think that it would result in a lot of paper work, an even bigger bureaucracy. "We have enough paper work just now: revised contracts, preemptions, 2% tax etc..

- Some others think that the only thing that advertisers are looking for is cost efficiency on the target group. If the tax advantage can lower the cost and consequently increase the effectiveness, it could be a good incentive.

- If more Canadian shows were sold to advertisers, this would generate more available money for Canadian production.

- But on the other hand, there would be no guarantee that private broadcasters will use the available money for Canadian production. Everybody likes the idea but the mechanics has to be set right, in order to guarantee the broadcasters' participation and to make sure that it does not become on "accounting nightmare".

B. KEY DEVELOPMENTS AFFECTING ADVERTISING REVENUES

1.1 QUATRE SAISONS

The arrival of QUATRE SAISONS in the TV market is a determinant factor that should affect revenues of existing broadcasters.

TV consumers and advertisers are the big winners with the arrival of RQS.

1. For TV viewers, a new TV station means significant additional French Canadian programming hours.

2. For advertisers and their agencies, it also means more availabilities, especially in prime time. Prime time television is usually sold out in Montreal and Quebec City during the peak months of TV advertising: March/April, October to mid-December.

3. A new TV station in Montreal also means more possibilities for "negotiations" for advertisers.

4. This new station in Montreal will create a new breed of advertisers: clients with mid-size budgets of $ 50 to $150,000 who can't afford TV with today's high cost per spot. Lower ratings during the first years will make TV prices more affordable for many new advertisers.

5. On the other hand, if these retailers are moving into TV, some radio stations may lose revenues, on a short term basis at least. The Quatre Saisons prices during the first year will tend to resemble prices of prime breakfast periods of some Montreal or Quebec radio stations . It will be tempting for a retailer to move from radio to TV for the same price, at least for a certain time.

6. TV dollars in Quebec will increase. This money should come from different sources: trade, Quebec regional markets (national spot dollars are mostly the ones in danger), new dollars created, shifts from other Canadian markets.

7. TV network sales shall not be affected and therefore, these national dollars in regional markets should not diminish. Network TV still guarantees good cost efficiency and top quality vehicles that insure visibility.

8. TV efficiency in Montreal shall not be affected in an important way. Advertisers will be more able to negotiate. Return on investment might diminish on competitive stations.

9. The arrival of Quatre Saisons, by offering more programming in French, should have a negative effect on English viewing by French viewers. But because historically French speaking viewers have mostly watched prime movies and special event television (EX: Grammys), Montreal English stations should not be affected economically; agencies do not take into consideration the French viewers watching English TV when buying the Montreal market.

10. It remains to be seen if the arrival of Quatre Saisons will increase average TV viewership. New stations never did in English Canada.
On the other hand, quality programming in Quebec during the last 2 years have increased average viewership. Example: Mini-Series.

11. On a rating standpoint, TVA should be more affected than French CBC, as it depends more strongly on U.S. shows to build its programming. The 8h00-10h00pm block of Quatre Saisons will presumably program a large proportion of U.S. movies to generate consistent ratings.

1.2 RADIO-QUEBEC

Advertising on Radio-Quebec is not something perceived as being "disturbing"for the industry.

Of course, this new player should generate more TV dollars. Advertising share should remain small as the numbers generated by R.Q. are not yet very high, when you exclude the programs Passe-Partout and Télé-Services that still account for a high percentage of total viewing hours.

If RQ wants to build higher ratings to attract more advertisers, it will have to be less "educational" and more "mass". Its cultural mandate will not be respected anymore.